Zipcar

For urbanites looking for a cost-effective alternative to car ownership, Zipcar is the answer. Since its inception in 2000, Zipcar, Inc. has offered its customers the freedom and flexibility to rent a car by the hour or day, without the hassles and costs of owning a car. After starting its operations in New York, Boston and Washington, DC, Zipcar quickly expanded to other metropolitan cities and to university campuses, “targeting densely populated areas with high parking costs and strong public transportation systems”¹.

Now serving 650,000 members with 9,500 vehicles across the US, Zipcar is the world’s leading car sharing network, but now faces several strategic issues that it must address². With established car rental agencies such as Hertz and Enterprise breathing down Zipcar’s neck, the firm must maintain its competitive edge, continue expansion and become profitable to stay in the industry.

History of the Rental Car Industry

Before car sharing was available, rental cars were the primary means of temporary car usage. The first fleet of rental cars was available in 1916, only 8 years after the first Model T left the assembly line. At that time many customers rented simply to experience the joy of driving. The rental car industry grew substantially during the 1950s with the advancement of commercial air travel. Hertz and Avis, two of today’s major rental companies, made a name for themselves during this time by providing convenient rental cars to travelers. Increasingly, rental agencies became centralized near airports and in large cities. By 1965 there were an estimated 135,000 rental vehicles available in the United States. By 2011 this number had grown exponentially to 7,100,000³.
Although the rental car industry has seen tremendous growth, it has not been an entirely smooth ride. The economic downturn that began in 2008 reduced consumer and corporate discretionary spending, decreasing the demand for both leisure and business related air travel. As a result, the car rental industry’s annual revenue fell from its 2006 level of $30 billion to $24.5 billion in 2009. Declining profitability resulted in industry-wide consolidation. Smaller firms less suited to withstand the downturn were acquired by larger ones. Firms like Hertz and Enterprise solidified their dominant market position by purchasing smaller competitors. The decline in air travel also forced agencies to focus their expansionary sights on new markets that could offer more growth.

Their new opportunity came in the form of car sharing, where customers could rent cars for hours at a time, rather than the traditional multiple day rental. This was an emerging service that targeted a new segment of people and a new source of revenue. The large established firms launched their car sharing services in 2008, with Enterprise’s WeCar and Hertz’s Connect. However, they were not the first to realize the potential of car sharing. Eight years prior to their entrance a small start-up was created, setting the precedent for the industry and driving much of its growth.

**History of Zipcar, Inc.**

Started by Antje Danielson and Robin Chase in January 2000 in Cambridge, Massachusetts, Zipcar came into the market riding its first mover advantage. Aware that the concept of car sharing was foreign to the US at this time, the two brought this idea over from Europe with the intent of creating a phenomenon. The first Zipcars hit the roads in Boston, MA in June 2000, and soon followed in Washington, DC (September 2001) and New York City (February 2002). Major metropolitan areas were the main targets due to the traffic and parking issues that residents faced on a daily basis. The goal was to give these consumers a viable alternative to car ownership, allowing them to use strategically placed Zipcars by simply reserving online or over the phone.

After its initial three years of operations and expansion, Zipcar had also faced three consecutive years of losses and was losing money rapidly. With the need for additional funding dire, Zipcar gave in to investors’ demands and replaced CEO and Co-Founder Robin Chase with Scott Griffith, the former CEO of the software company Digital Goods. In 2005, Zipcar secured
$10 million in funding from Benchmark Capital and was able to continue its expansion over the next couple of years to San Francisco, Chicago, Baltimore, Toronto, Vancouver, and London, as well as to college campuses across the nation\textsuperscript{1}.

Throughout Zipcar’s history, expansion has been the main tool for driving business, so when the merger with Flexcar, Inc. was announced in 2007, it did not come as a big surprise. Flexcar brought with it close to 60,000 new members in new markets such as Seattle, Portland, Atlanta, Philadelphia, and Pittsburgh\textsuperscript{6}. In December 2009, Zipcar set its focus on expanding internationally by gaining a minority interest in Catalunya Carsharing S.A., also known as Avancar, the largest car sharing firm in Spain. This investment also came with options to expand Zipcar’s ownership share and to have a Zipcar executive join Avancar’s board\textsuperscript{7}. The next European expansion came in the form of an acquisition of UK-based Streetcar Limited, in April 2010. This move was made with the hopes of creating a management center in Europe from which Zipcar could expand into other markets using a team experienced in European operations.

After ten years of operation, and also ten years of net losses, Zipcar, Inc. decided to raise even more capital to fund their continuing expansion by holding a public offering in April 2011. Hoping to raise $75 million selling at $18 per share, Zipcar’s IPO was very successful and exceeded expectations by bringing in $174 million in funding. The company intended to use this money for “the repayment of certain debt, business expansion, working capital” and “the development of new services, sales and marketing activities”\textsuperscript{1}. With these goals in mind, Zipcar could further pursue its goals of expansion and profitability.

**Zipcar: How it Works**

Zipcar is a membership-based car sharing network that uses a proprietary and custom-designed technology platform to offer a cost saving alternative to car ownership. This car sharing network offers solutions to three primary market segments: individuals seeking cost savings, university students and faculty, and business and government employees\textsuperscript{1}.

**Zipcar’s Service**

Zipcar prides itself on offering the largest and most diverse fleet of car sharing vehicles in the major metropolitan areas in which it operates. Zipcar’s fleet has reached 9,500 vehicles, which operate in 15 major metropolitan areas and 250 college campuses across the United States, Canada, and the United Kingdom; making it both the largest and most recognized brand in the
car sharing industry. After becoming a member, access is granted to reserve Zipcars by the hour or day, which are parked at convenient locations.

One of Zipcar’s main competitive advantages is its proprietary and efficient technology platform. The platform allows for a host of integrated activities such as “member sign-up, online and wireless reservations, keyless vehicle access, fleet management and member management.” In addition, the platform offers convenient ways for customers to interact with the company, such as extending their rental, through smartphone applications or standard text messaging. Lastly, and most importantly for future innovations, the technology is able to track and analyze valuable fleet operation data, which allows Zipcar to enhance the customer experience and further develop its proprietary FastFleet software, a Software-as-a-Service complementary product sold to corporations.

How it Works

Membership is gained by filling out an online application and paying both an annual membership fee and a one-time application fee for setting up an account. The application fee of $25 dollars is for a driving record check, which ensures that Zipcar is not exposing itself to unnecessary insurance risks.

Membership fees differ for individuals, businesses, and universities. For individuals, rates depend on the city in which you are using a Zipcar. In general, fees range from $50-$60 a year ($35 a year for students) and require no monthly commitment. Businesses can set up an account for a one-time fee of $75, and each driver added to the account pays an annual membership fee of $25. After completing the application and passing the driving record check, the member receives a Zipcard by mail, which allows them keyless access to any Zipcar they reserve.

The Zipcar member, properly coined a Zipster, is now able to reserve a nearby parked car by the hour or day depending on their needs. Hourly rates range from $6-9 and daily rates range from $60-$90 depending on the city, plan, and day of the week. Weekends are more expensive than weekdays, and cities with higher cost of living are more expensive than cities with a lower cost of living. These rates include gas, insurance, and 180 miles of free driving.

Using one of Zipcar’s convenient reservation methods, members can search for available cars by time, location, price, or model, and can book a car minutes or months in advance. After making a reservation, they are able to use their Zipcard to unlock the vehicle from its reserved
spot by simply holding it up to the windshield. After using their car, they simply return it to the same reserved spot from which they picked it up\textsuperscript{8}.

**Going Forward**

While Zipcar’s current service offering has allowed it to garner brand recognition and a 50% market share in the car sharing industry, competitive threats from large car rental companies such as Hertz and Enterprise make it imperative for Zipcar to adapt its business model and position itself for long-term success\textsuperscript{9}. The market opportunity in the car sharing industry is growing, and Zipcar must use their first mover advantage, proprietary technology platform, and superior knowledge base to continue to expand into new markets while keeping profitability goals in mind.

**Strategic Issues**

**Financing**

One of Zipcar’s greatest challenges is profitability. After ten years of operations, the firm has yet to report a year-end profit. Although largely successful in growing its revenue and market share, Zipcar has had a constant struggle with high fixed costs that have left it consistently in the red and in constant need of financing.

Zipcar’s frequent expansion into new markets and within existing markets has left it dependant on the need to purchase large quantities of vehicles. The expansion of their fleet has allowed the firm to establish its 50% market share, but at the cost of having to constantly fund these expenditures. With close to half of its assets tied up in property and equipment, and half of its liabilities in capital lease obligations, the firm has minimal free cash and needs financing to drive expansion\textsuperscript{2}.

Zipcar’s financing began with venture capital investments, but quickly moved towards bank loans and credit lines. While large loans were needed to purchase a significant quantity of cars, this debt created substantial interest charges, which negatively impacted the bottom line. In 2010, Zipcar received $70 million through an asset-backed securitization (ABS) program to further fund the fleet expansion. In the words of CEO Scott Griffith, “It increases the total credit available to Zipcar... ultimately reducing our cost of financing while improving our customer experience with a fresh, growing fleet of Zipcars”\textsuperscript{10}. In December 2010, Zipcar successfully obtained an additional $21 million in venture capital financing, allowing for both fleet and
geographic expansion as well as a strengthened balance sheet\textsuperscript{11}. By seeking out financing from growth-seeking investors such as venture capitalists, instead of interest-bearing bank loans, Zipcar can continue to expand with lower costs and higher profitability.

\textit{Competition}

With only 50\% market share in the growing car sharing industry, Zipcar faces stiff competition from deep-pocketed competitors such as Hertz and Enterprise.

\textit{Hertz: On Demand}

Hertz launched its first car sharing program, Connect, in 2008. The service was available in a limited number of cities and had hidden fees characteristic of the traditional car rental industry. During its first year, the Connect program received little marketing and captured only a small share of the market. However, after witnessing Zipcar’s rapid growth, Hertz decided to revamp their service. The newly-named Hertz On Demand sought to undercut the competition with better offerings and lower fees. Because of Hertz’s established position in the car rental industry they were able to eliminate annual membership and enrollment fees while offering lower hourly rates than Zipcar. Due to their presence at airports, Hertz On Demand was able to offer customers one-way trips to and from the airport, an attractive feature Zipcar had been unable to match. To entice customers to switch over from their existing car sharing service, Hertz offered new members a $75 driving credit. In 2011 Hertz On Demand was present in 12 major U.S. cities, on 52 campuses, and growing at an astounding rate of 30\% per month\textsuperscript{12}. Although Zipcar still possesses a majority of the car sharing market, Hertz On Demand’s lower price and better offerings threaten to steal the spotlight.

\textit{Enterprise: WeCar}

Enterprise also created their own car sharing service, WeCar, in 2008. In contrast to Zipcar, Enterprise was able to enter the market with minimal entry barriers. Enterprise simply had to update the technology on some of their existing cars to create a WeCar fleet. The cost of a WeCar membership was similar to that for Zipcar; however, WeCar allowed members a daily mileage rate of 200 miles, 20 miles more than Zipcar’s allowance. Whereas Zipcars were primarily small sedans, the WeCar fleet consisted of a variety of different car sizes, an attractive feature that led Duke University to replace their Zipcars with WeCars in 2011\textsuperscript{13}. If this trend continues, Zipcar’s dominant market share will be put in jeopardy.
**Recommendation**

In order for Zipcar to address and combat the serious competitive threats posed by Hertz and Enterprise, an aggressive growth and expansion strategy must be pursued. However, it is imperative that Zipcar does not overextend their limits, as they must also strive to reach a consistent state of profitability.

With Hertz, Enterprise, and other large competitors entering the car sharing market, Zipcar must ensure that it uses its established network, superior knowledge base, proprietary technology, and first mover advantage to expand and capitalize on the immense, untapped market opportunity that exists in the car sharing industry. Zipcar’s expansion strategy should be threefold: 1) expand into new domestic and international markets; 2) attract new customers within existing markets; and 3) pursue innovative opportunities for both customer and supplier growth.

**Expansion into New Markets**

While there are significant risks and costs associated with expanding into new markets, especially internationally, it is important for Zipcar to both increase their brand recognition and establish themselves as the main player in the industry. Domestic growth should be the primary goal, and it is in Zipcar’s best interest to do this organically as opposed to the costly acquisition of competitors. By moving into new cities, Zipcar will maintain their first mover advantage while raising the barriers to entry. Zipcar should target key, untapped metropolitan hubs, such as Los Angeles and Dallas, to enhance their geographic footprint across the United States. While this domestic growth requires significant upfront costs and puts a continuing strain on management and infrastructure, it is the only way Zipcar can ensure that they expand their brand and prevent car rental giants from garnering their market share by undercutting prices.

While international growth is a secondary expansion goal, it is still an important strategy to pursue now and down the line. Although potentially expensive, the most effective method for international growth is through acquisition, such as Zipcar’s acquisition of StreetCar Unlimited in London, because it reduces the hassle and costs of implementing management and infrastructure in an area where Zipcar has little cultural, legal, or business expertise. As with domestic growth, Zipcar should focus their interests in large metropolitan hubs with similar characteristics as large U.S. cities. In all, while aggressive domestic and international expansion
poses significant risks and high costs that will negatively effect the bottom line, it is the wise long-term decision to ensure that they maintain their strong market share amidst heavy competitive threats.

**Increasing Adoption Rates in Current Operating Markets**

Zipcar’s second lever for growth should be to focus on attracting new customers in existing markets by increasing awareness of Zipcar as a cost saving alternative to car ownership. This strategy can be deployed through a variety of measures, including “advertising, public relations, search engine marketing, member referrals, and grassroots community events”\(^1\). The most important tool for Zipcar is their current Zipsters, who serve as constant supporters and cost-free marketers of Zipcar’s benefits through word-of-mouth advertising. This creates lower customer acquisition costs that will help improve profitability in the future. While Zipcar has garnered a large market share in its current metropolitan hubs, there is ample opportunity for increased adoption rates as awareness and acceptance of car sharing grows in the future. This lever is cheaper than aggressive growth in new markets, and will be vital in increasing the brand reputation and network effects of Zipcar.

**Innovative Opportunities**

Another important way for Zipcar to fuel expansion is to identify new avenues for both customer and supplier development and growth. On the customer side, some innovative opportunities for growth exist in developing more partnerships with corporations and governments. By entering into contracts with these entities, Zipcar can both open up additional revenue sources and create cost-saving initiatives. For example, Zipcar should develop relationships with municipal governments who will offer Zipcar parking spots at a lower cost in return for a green alternative to car ownership. As shown in national studies, Zipcar has proven to take 15 drivers off the road for each car shared, as well as reduce the number of miles driven by 50%\(^14\). These partnerships with governments and businesses will serve as a key growth factor in Zipcar’s future. On the supplier side, it is imperative for Zipcar to continue to develop partnerships with vehicle manufacturers, such as its new agreement with Ford\(^2\), as this will help Zipcar significantly reduce its infrastructure costs.

**Conclusion**

As the industry leader, Zipcar must maintain its competitive advantages through
continued expansion, innovation of services, and a drive for profitability. By doing this, the company can ensure its market dominance and fend off competitive threats from rental giants, such as Hertz and Enterprise. The future is uncertain, but Zipcar is poised for long-term success in the car sharing industry.

**Endnotes:**


