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Avis and Hertz Acquisitions Raise Questions Over Rate Trend

By HARRIET EDLESON

The car rental business is consolidating, with [Hertz's acquisition of Dollar Thrifty](#) in November and the [Avis Budget Group's announcement](#) last week that it planned to buy the car-sharing company [Zipcar](#). Does this mean that consumers will have fewer options and end up paying more to rent a car?

In the short term, industry analysts do not think so. They are less certain about what will happen in the long term.

With the Hertz deal, the number of major car rental companies is dropping to three, from four, but there are still enough brands to keep prices stable, analysts said. Prices, they added, tend to be driven by supply and demand in regional markets.

With the Avis deal, analysts said, Zipcar users may actually gain options.

Zipcar, founded in 2000, works on a car-sharing business model and has a fleet of just 12,000 cars worldwide, compared with about 1.7 million rental cars in the United States alone. Its acquisition by Avis gives members "more alternatives and the potential of having more options," said Neil Abrams, the founder of the Abrams Consulting Group, a car rental consulting and travel market research organization in Purchase, N.Y.

Zipcar members can rent by the hour or by the day, which is appealing to people who drive infrequently. "Why pay for something you don't need?" Mr. Abrams said. "It's a very cost-effective system if used properly." On the other hand, he said, if you pay by the hour and need the car for a whole day, a Zipcar can cost more, depending on the model, than a traditional rental car.

Zipcars are not typically located in airports, where competition is greater. The company serves a different market, including drivers younger than 25, who may not be able to rent from traditional companies. It also serves large urban areas like New York, Los Angeles, London and Barcelona, Spain, where people do not want to own a car but want one for short periods.

Analysts say Zipcar can raise its hourly rate only so much before it will drive a



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“Prices can only go so high,” said Chris Brown, executive editor of Auto Rental News, based in Torrance, Calif. “If prices go too high, consumers won’t rent. They will use other types of transportation. They’ll borrow a friend’s car, use public transportation or take a train.”

Avis has indicated that it intends to increase the size of the Zipcar fleet. “We expect to apply Avis Budget’s experience and efficiencies of fleet management with Zipcar’s proven, customer-friendly technology to accelerate the growth of the Zipcar brand and to provide more options for Zipsters in more places,” Ronald L. Nelson, chairman and chief executive of Avis, said in a statement.

In the Hertz deal, the Federal Trade Commission has played a major role in preserving competition in airport car rental markets by requiring Hertz to sell its Advantage Rent a Car business and the rights to operate about 30 Dollar Thrifty locations in airports throughout the United States.

A proposed agreement was open to public comment through Dec. 17, and the F.T.C. will determine soon whether to make it final.

The commission complained that Hertz’s original plans for acquiring Dollar Thrifty would be anticompetitive. It contended that by reducing the number of major competitors to three, the acquisition would create “substantially more concentration in 72 airport rental car markets nationwide” and “eliminate head-to-head competition between Hertz and Dollar Thrifty” at several airports, including Baltimore-Washington International Airport, Chicago [O’Hare International Airport](#) and Kennedy Airport in New York.

The F.T.C. said the deal, as originally proposed, would have harmed competition by reducing the number of competitors and enabling Hertz to raise rental car prices.

Precisely because the commission has stepped into the acquisition, prices are likely to remain stable, industry analysts said.

“Better pricing, higher pricing, may be the case, but not in the near future,” Mr. Brown of Auto Rental News said of the Hertz-Dollar Thrifty deal.

He and other analysts described four tiers of rental cars: the premium brands of Avis, Hertz and National; the midprice brands of Budget and Alamo; the value brands of Dollar, Thrifty and Enterprise; and the deep discount brands of Advantage, Payless and Fox, an emerging player.

A deep discount brand like Fox or Sixt, based in Europe, is likely to step into the markets where the F.T.C. requires Hertz to sell its Advantage business and Dollar Thrifty locations, Mr. Brown said, because premium brands are already in those markets.

Rather than prices going up, “brands will still be competing with each other for market share,” he said. He predicted a “grand war on rates” for the deep discount customer. Sixt has already entered the American market with nine locations, including the Miami, Orlando, Fort Lauderdale, Palm Beach and Hartsfield-Jackson Atlanta airports.

Mr. Abrams said rental companies preferred to keep prices stable and spend their energy on trying to gain market share.

Car rental prices are lower now than they were in 2009, and Mr. Abrams said he did not expect them to increase because of the Hertz deal. “The concerns of the F.T.C. that pricing would be compromised from a consumer perspective — that won’t happen,” he said.

According to data compiled by Abrams Travel Data Services, the research business unit of Mr. Abrams’s company, rental car prices have declined after peaking in 2009, “when inventories contracted significantly as demand cratered,” he said.

In 2009, the daily rate for the second Monday in November was about \$89, not including taxes and fees, which vary. The rate dropped to nearly \$73 in 2010 and to about \$55 in 2011 before increasing to a little over \$65 in 2012. The daily rate is for a midsize car.

He noted that Dollar Thrifty had been of interest to other rental car companies because it represented a way to gain market share in the value market for both leisure and [business travelers](#).

Other analysts agreed that they did not have immediate concerns about competition.

“I expect the car rental industry to stay very competitive in the short term in both corporate and leisure segments,” said Doyle Gunnell, global project manager of ground transportation at Carlson Wagonlit Travel.

The rental car market is fairly straightforward, said Nima Samadi, senior industry analyst at IBISWorld. “Pricing is based on regional demand,” he said. “This reduces the influences of merger and acquisition activity.”

The Avis-Zipcar deal, Mr. Samadi said, will lead to “more cars and more locations at an hourly rate,” which is good for rental companies and for consumers.