

Wary Of Consolidation, Buyers Could Benefit From Hertz-Dollar Thrifty Deal

Procurement professionals are rightly suspicious of travel supplier mergers and acquisitions. Look no further than the domestic airline market of recent years for a case study in how consolidation can diminish corporations' pricing leverage.

With Hertz finally set to wed Dollar Thrifty after a long courtship, conventional wisdom suggests that rental car companies are poised to regain leverage in corporate negotiations and raise rates. Yet, that thinking may be unfounded, at least in the short term. Industry pricing forecasts and at least one analyst suggest that U.S. price increases in 2013 are unlikely given broader economic variables beyond M&A.

Even with consolidation, rental car suppliers have continued to compete aggressively for corporate business, said industry veteran and consultant Neil Abrams. With Dollar Thrifty under Hertz's wing, the combined company could further heighten competition to the benefit of buyers.

A New Landscape

At first glance, the figures are daunting: Combined, the four largest U.S. rental car companies—Avis Budget, Enterprise, Hertz and Dollar Thrifty—last year accounted for about 97 percent of the market at the top 50 U.S. airports, according to Abrams Consulting Group data. Once Hertz seals its acquisition of Dollar Thrifty (which at press time still awaited final Federal Trade Commission approval), the industry will have only three major companies.

"With this deal, you'll have three companies controlling the eight major brands," said Abrams. "That is of concern to regulators because of the

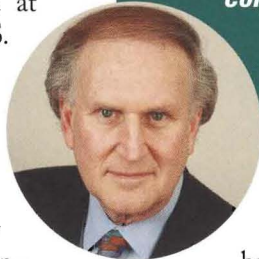
potential for pricing power."

While pricing-power implications also concern buyers, Abrams noted that Hertz's plans for Dollar Thrifty, a bit player in the corporate market, poses little threat to them.

While Hertz has declined to detail plans for integrating sales forces and approaching the corporate market

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Consultant



as it waits for FTC's blessing, the company has commented on its broader plans. The Hertz brand will continue to emphasize "premium" business and leisure segments, while Dollar targets the "value" business and leisure segments and Thrifty takes on the "spartan leisure segment," according to statements by Hertz CEO Mark Frissora.

In other words, according to Abrams' analysis, rather than killing corporate competitors in search of pricing momentum, Hertz will adopt entirely different pricing and branding schemes for Dollar and Thrifty. Abrams contended that Hertz's addition of Dollar Thrifty could benefit some corporate travel buyers, as Dollar "creates a new brand offering to the secondary corporate marketplace"—essentially another tier for Hertz corporate accounts. This is how other multi-brand companies are structured: Enterprise can supplement subsidiary National's premium brand in corporate agreements, while Budget can fill

out the Avis corporate portfolio.

"The only significant movement we'll see here is not pricing pressure on the Hertz side, but Dollar entering the corporate world," Abrams said. "If you talk to Dollar Thrifty management, they would probably tell you they've always marketed to the corporate sector, but they've never been able to support the corporate world the way they needed. They didn't have the money, processes and systems to support the corporate community."

Now, the Hertz sales team can bring to the market a new brand and price point. "If you don't need all the bells and whistles, if you don't need special inventory access capabilities, and you don't need reporting mechanisms, then Hertz now has a value brand for this corporate sector," said Abrams.

What Pricing Power?

Corporate pricing this year fell as much as 3 percent year over year, following a similarly soft 2011, according to travel management companies, rental car companies and analysts.

Carlson Wagonlit Travel forecast that rental car suppliers "will struggle" to raise prices in 2013. Even with consolidation, CWT views a rental car marketplace that "remains highly competitive with just a few suppliers vying for corporate business." American Express projected that North American car rental rates would decline in 2013, citing "increased competition." While Advito also pointed to "fierce competition" in its outlook calling for stable pricing trends into 2013, the BCD Travel consulting unit also suggested that in the long-term, "the effective completion of consolidation of the marketplace following the Hertz-Dollar Thrifty deal could put upward pressure on corporate rates." 