

Taman Powell
Pascal Courty
Michael G. Jacobides
Tom Albrighton

CS-03-027
January 2016

The European rent-a-car market and easyCar (A)

It was 1999 and Stelios Haji-loannou and the easyGroup management team were pondering whether European car rental was a business worth entering. They had an enviable track record when it came to picking market opportunities. Could this be their next success?

The European car rental market, with sales of close to €6 billion, was mature and established. It was also very concentrated, with the top three players in each segment having shares of 50–80% (**Exhibit 1**).

Obviously, the entry decision would not be clear-cut and the team embarked on a detailed review of the market.

Operations

The key cost items for a typical large car-rental firm were: Car depreciation (~31%); travel agent commissions (~15%), staff costs and administration (~13%); airport concessions (~9%); franchise arrangements (~4–5%); and advertising and promotion (~3–4%) (**Exhibit 2**).

The biggest cost, depreciation, depended on the ability to purchase cars at favourable prices from original equipment manufacturers (OEMs) and resell them on the second-hand car market, which varied significantly between firms. When purchasing, scale was the key factor. In resale, the challenge was to avoid flooding the market with too many cars of the same model, depressing the price. Much higher prices (~+30%) could be achieved by selling via retail rather than the wholesale market, but this meant operating second-hand car dealerships, which added complexity and required different capabilities.

Many firms entered into guaranteed buyback agreements with OEMs, usually for a period of six months. This let them focus on their core business while enjoying the flexibility to change their fleet composition every six months. For their part, OEMs got a stream of nearly-new, quality used cars to resell. Controlling a segment of the second-hand market

This case was written in May 2003 by Taman Powell under the supervision of Professors Pascal Courty and Michael G Jacobides; updated by Michael G Jacobides with the assistance of Tom Albrighton in January 2016.

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