A Driving Need

Review of Vehicle Rental Services as part of Tourism Development in Newfoundland and Labrador

Prepared for the Provincial Department of Tourism, Culture and Recreation

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This report on vehicle rental services provides a foundation of shared knowledge on the provincial vehicle rental business so government and industry leaders have the information they need to support sound tourism business operations and provide visitors with informed trip-planning advice before and after they arrive in the province.

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1 Executive Summary

In 2009 a shortage of rental vehicles in this province was making headlines and not only in Newfoundland and Labrador. Tourism operators and visitors raised the issue with the Department of Tourism, Culture and Recreation (TCR) and Hospitality Newfoundland and Labrador (HNL). They brought it to the attention of mayors and tourism leaders. The situation was not unique in the global vehicle rental industry—there were shortages in other major destinations, notably Spain and Ireland.

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There is a two-week period at the end of July and the first week of August when demand for rental vehicles seems limitless. This is bracketed by a six-week peak season of intense demand. Tourism operators maintain that, in 2009, there was a shortage of vehicles for the entire peak season. Vehicle rental operators maintain that outside of the two-week spike, rental cars were available, but usually at locations other than airports. It is estimated that close to 5,000 vehicles are available in peak season, with 1,200 to 1,500 the remainder of the year.

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Problems with availability of vehicles are predominant at airports, especially St. John's and Deer Lake. These are the gateways for travelers requiring vehicles. Shortages there create vacancies for the tourism industry across the province. With tight inventories, and limited availability of vehicles for those without reservations at peak times, those destinations farther away from the gateways feel the impact of this shortage. In 2009 tour operators, convention organizers and many rural tourism operators dealt with frustrated visitors. And they in turn were frustrated when, because there were no vehicles available, visitors couldn't keep their booking or extend their stay.

However, while availability is at the top of the list of concerns for tourism stakeholders it is closely followed by a range of other priority concerns about vehicle rental in Newfoundland and Labrador—limited kilometres, restrictions on one-way travel, restrictions on unpaved driving, substitution of different models and/or older vehicles, and deteriorating service to name a few.

During the course of this study it was revealed that the rental industry in Newfoundland and Labrador was caught in a triple slam, driven home by the global economic crisis—automobile manufacturers threatened with bankruptcy cut off rental vehicle supply, business travel was paralyzed by economic uncertainties, and credit and financing was severely constricted.

Successful global vehicle rental companies reacted quickly, and the impact was felt in this province. With a driving need to remain competitive, they used the situation as an opportunity to correct their relationships with

Critical issues unique to this province are St. John's airport facilities, vicarious liability insurance costs, transportation logistics and costs, vehicle registration, and need for an expanded shoulder season.

automobile dealers, franchisers and most of all, customers. In this province, in 2009, that translated into smaller fleets, with mixed models and older vehicles, higher rental prices with more restrictions, and fewer staff. All this at a time when, contrary to international trends and predictions of negative growth, Newfoundland and Labrador's tourism, and business in general, continued to increase.

Tourism stakeholders believe that vehicle rental operators do not actively participate in the tourism industry but profit from it for six to eight weeks every year. They have called for the operators to participate in industry organizations. Vehicle rental operators maintain that they are committed to this market and to continued investment and growth, but they revealed during this study that there are critical issues unique to this province that threaten viability. Regional executives insist there has to be change and improvement in a number of areas— St. John's airport facilities, vicarious liability insurance costs, transportation logistics and costs, vehicle registration regulations and service, and most of all, an expanded shoulder season. Now rental vehicle operators must earn close to half of their annual revenue over two months. Operators want to base their business model on at least six months of steady rental business, not eight weeks with a two-week spike.

All agree that the situation in 2009 must not be repeated. The impact of continued shortages can have dire economic consequences. A recent study of the rental industry in Ireland estimates that the reduction of their vehicle rental fleet by over 50 percent could cost that country's tourism industry more than half a billion dollars this year. With a loss of its reputation as a reliable tourism destination the longer-term impact could be even more costly. The same could apply to this province which has so strategically positioned its brand.

Part of the message needs to be that, for the accidental tourist, there may not be any vehicles, but for those who plan ahead, booking rooms and flights, and vehicles, their visit could be everything they want it to be.

There is a new vision for tourism, outlined in *Uncommon Potential: A Vision for Newfoundland and Labrador Tourism* (Vision 2020). The vision includes a sustainable transportation network to sustain long-term tourism growth and that requires vehicle rental capacity and improving visitor access to rental vehicles.

There are immediate actions to be taken, and long-term planning is essential, with all parties involved. Determining whether or not there is a shortage is not the issue. There has to be a focus on ensuring availability. Rental operators must plan to meet demand. Travelers must make reservations. And tourism operators must proactively advise customers to make reservations, and notify rental operators as early as possible about their rental vehicle needs.

All agree that the situation in 2009 must not be repeated.

The Department of Tourism, Culture and Recreation, along with Hospitality Newfoundland and Labrador, and rental operators are committed to finding solutions. They understand:

- The vehicle rental industry is driven by business objectives, and is a contributor to the provincial objective, as set out in Vision 2020, to double tourism revenues.
- While the global vehicle rental industry is going through a correction in operations, they will take action to mitigate any loss in service quality and vehicle availability.
- Immediate actions will be taken to inform and influence all travelers to the province to plan for renting their vehicles and to make early reservations.
- Communications will be balanced and collaborative—when all stakeholders plan together they are more likely to avert problems. Tourism and rental operators will work together to ensure that the services and infrastructure are there to support the message that Newfoundland and Labrador is a great place to visit and is ready to welcome visitors, to all regions, year-round.

Short-Term Recommendations

Take immediate actions to address potential issues with rental vehicles for the 2010 peak season:

1. Get the message out now to visitors to book a vehicle immediately.

Include this message in government and industry information and promotions to the public with links to vehicle rental operators from tourism related websites, in advertising, over the phone and on electronic reservation systems.

2. Develop a central information source during the peak season to gather, assimilate and disseminate daily reports on numbers and locations of available vehicles.

Host a database of information from all known rental operations— on a website, with destination marketing organizations (DMOs), a call centre or at visitor information centres.

There has to be a focus on ensuring vehicle availability.

Recommendations to Build Relationships

3. Form a working group with a one-year action plan.

Assemble a group of representatives from the tourism industry, the Department of Tourism, Culture and Recreation, and all rental operators, inviting as needed DMOs, other government departments such as Transportation and Works, shipping companies, convention planners, and event planners for sport and festivals.

In recognition that there are critical issues impacting the business of rental operators, the working group should review:

- ~ Facilities at St. John's airport,
- ~ Vicarious liability insurance,
- ~ Shipping costs and efficiencies, and
- ~ Vehicle registration costs and processing.

Recognize opportunities for enhancing vehicle rental operators' participation in marketing and product development:

- ~ Partnership programs for 2011—advertising, and travel trade and consumer promotions; determine central information sources.
- ~ Pricing and packaging of driving and touring experiences for the shoulder seasons.

Develop communications channels that help tourism and rental operators to better understand each other's business and work together on a year-round basis. This should include sharing of plans for events, conferences and high demand scenarios. Find ways and means to engage and inform regulators, shippers, car dealers and others.

4. Hold an industry forum in the fall of 2010.

Bring together working group members and contributors, key tourism stakeholders, and all vehicle rental operators, to report on the working group's action plan, learn from experienced rental industry leaders in other jurisdictions and plan for the future.

Mid- to Long-term Recommendations

5. *Conduct visitor research.*

To measure visitor satisfaction and determine buying behaviour, gather market intelligence and research through visitor surveys—at time of booking, and at time of entry to and exit from the province.

6. Collect tourism intelligence.

Gather feedback and facts from tourism industry operators in a structured way, track demand, measure impact, and build the business case for rental operator planning and growth.

7. Include vehicle rental operators in Vision 2020.

Integrate vehicle rental industry considerations in all seven pillars of the Vision 2020.

8. Inform rental operators about cooperative marketing programs.

Work on informing rental operators about opportunities to include their corporate brands in cooperative programs; and encourage the vehicle rental industry to develop new campaigns which promote agreed messaging.

9. Include rental operators in product development programs.

Promote driving and touring experiences that extend the shoulder seasons with regional itineraries and package pricing.

10. Maintain reminders to book vehicles.

Increase links and prompts on all sites and at all points of contact to encourage visitors and third parties involved in their travel planning to book in advance.

11. Increase industry communications.

Increase communications among tourism industry operators and vehicle rental operators.

Tourism and vehicle rental operators must work together.

A reliable and consistent transportation system is essential for the success of the tourism industry.

2 Background

A reliable and consistent transportation system is essential for the success of the tourism industry in Newfoundland and Labrador. A key piece of this infrastructure is satisfactory vehicle rental services. In 2009, the Department of Tourism, Culture and Recreation was alerted to growing concerns among tourism operators about rental vehicle supply, and a marked increase in rental vehicle complaints at provincial tourism information centres, particularly during peak tourism periods.

The issue attracted the attention of industry associations and media. Hospitality Newfoundland and Labrador (HNL), the umbrella organization for tourism in the province was compelled in 2009 to focus first and foremost on the vehicle rental sector.

The issues arose from a combination of factors. These included:

- continued growth in visitations, despite predictions to the contrary,
- a burgeoning convention and meeting market,
- a prosperous industrial and business environment, and
- increased travel for sport tournaments and festivals, combined with
- global changes in the automotive industry (the backbone of the rental business) that are radically changing the vehicle rental business model.

As a result of these factors, local vehicle rental operators were challenged to manage their fleet inventory during peaks in visitation that ranged from six to eight weeks. The shortage of vehicles created increasing frustration not only among tourists but also among tourism operators across the province.

To achieve its goal of a better and more reliable transportation system, and to support the vision set out in *Uncommon Potential: A Vision for Newfoundland and Labrador Tourism* (Vision 2020), TCR in association with HNL, decided it was necessary to assess vehicle rental services in the province and to develop recommendations for improving visitor access to rental vehicles and help to sustain long-term tourism growth.

3 Introduction

In *Uncommon Potential—A Vision for Newfoundland and Labrador Tourism*, government issued the challenge to double annual tourism revenue to $1.6 billion by 2020. Second on the list of priorities to achieve this goal is the development and maintenance of a sustainable transportation network. A critical action to be addressed as a component of that priority is vehicle rental capacity.

A critical action to be addressed is vehicle rental capacity.

Rather than improving, the vehicle rental industry appears to be going in the opposite direction—at least from a tourism perspective. Government has experienced a growing number of concerns about vehicle rentals, particularly car rental, from tourism operators who have indentified, in particular, the shortage of vehicles at peak times. The vehicles that are available come with limited kilometers, a disadvantage in such a large province where distant rural operations depend on tourists to drive to their region from the airport gateways. In 2009 there were also concerns about the diminishing quality and type of vehicles available. These and other issues such as one-way charges are creating increasing difficulties for tourism operators.

In September 2009, to address these concerns the Department of Tourism, Culture and Recreation created a steering committee. The committee was led by their Director of Research and supported by the Assistant Deputy Minister, Tourism, the Director of Tourism Marketing and the Director of Strategic Tourism Product Development. From the private sector the committee included HNL's Executive Director and current (2010) President. They issued a call for proposals and selected Marilyn Butland Communications to:

1. Develop a profile of the current vehicle rental industry, including the estimated demand for vehicle rental services, and identification of barriers to more accessible and affordable rental services;
2. Conduct a comparative study between the industry in this province and in other jurisdictions;
3. Present preliminary findings to stakeholders including tourism operators and vehicle rental operators; and
4. Prepare recommendations to integrate vehicle rental services as an asset for tourism growth.

The remainder of this report describes the approach and methodology for completing this project, presents the concerns of both tourism and rental operators as identified in the course of research, provides a detailed profile of the vehicle rental industry, identifies continued demand, and makes recommendations for solutions to better integrate vehicle rental services in the development of the tourism sector in this province.

4 Approach and Methodology

Understand the key audiences involved in and affected by the vehicle rental industry.

Marilyn Butland Communications divided the research into four distinct functions:

- ~ Stakeholder interviews
- ~ Survey of frontline rental staff
- ~ Focus groups
- ~ Extensive secondary research

Preliminary steps included:

- ~ Assessing government's and the tourism industry's interest and ability to contribute to innovative solutions;
- ~ Setting the context for the review, with the understanding that solutions may be complex and success incremental;
- ~ Identifying legal, consumer and other issues; and
- ~ Establishing that the report and results of the review would be available to tourism industry operators, vehicle rental operators and other interested parties.

The subsequent research provided an understanding of key audiences involved in and affected by the vehicle rental industry.

4.1 Stakeholder interviews

In order to gauge the impact of the vehicle rental industry on the various stakeholders in the tourism industry, and to assess their expectations, 28 in-depth interviews were conducted in person or by email and telephone in the province with:

- ~ Tourism operators including tour companies, hoteliers, destination marketing organizations, attractions operators, outfitters, and sport, event and convention organizers;
- ~ Travel agencies;
- ~ Local and regional managers of corporate, franchise and independent rental operations;
- ~ Government executive including directors and managers responsible for marketing, research and planning, product development and visitor information;
- ~ Marine and trans-modal shippers;
- ~ Automobile dealers;
- ~ Insurance agencies; and
- ~ Airport authority managers.

4.2 Survey of frontline rental staff

In order to gain firsthand account of the expectations of visitors, consumers and tourism operators, and insight into front line operations, a questionnaire was circulated to all of the 54 rental operations in the province. Responses were received from 9 operations, as participation by frontline staff was restricted by major companies due to corporate confidentiality. Key issues and operational information was provided in the interviews with regional and local managers.

4.3 Focus groups

Striving to incorporate regional diversity and needs into the findings meant meeting with groups to discuss issues and possible solutions. To that end focus groups with tourism operators and related organizations were conducted in Deer Lake, Happy Valley-Goose Bay and St. John's. Of the 58 invited to participate, 13 attended the sessions. These included representatives of:

- Inbound tour operators;
- Destination management organizations for each of the three regions;
- Key tourism industry operators e.g. accommodators, attractions operators;
- TCR visitor information centre managers;
- Key economic development organizations with a tourism component; and
- Others as identified in the review process.

4.4 Review of other jurisdictions and destinations

In-depth interviews were conducted with seven officials working in government and rental associations and organizations in Ireland, Tasmania, Whitehorse, British Columbia and Iceland, as well as with five Canadian officials with the national rental operator association, and former national managers of major car rental companies. These interviews substantiated and added to the extensive secondary research.

4.5 Secondary Research

In addition to primary research, the project included an extensive secondary research and comparative analysis component. The review included existing literature, web site, blogs, media coverage and data relevant to:

Understand expectations of visitors, consumers, tourism operators, and vehicle rental operators; regional needs. Review other destinations.

Understand industry trends, and consumer and corporate behaviour.

~ Vehicle rental industry reports, conference presentations, legislation, trends and projections;
~ Business context of global and local vehicle rental companies (revenues and costs, provincial motor vehicle registration, insurance);
~ Rental operator associations and organizations;
~ Corporate annual reports, marketing and branding for major rental operators;
~ Vehicle rental industry journals and media coverage;
~ Automobile industry trends, projections, and relationships with rental companies;
~ Consumer rental behavior;
~ Shipping logistics, costs and inter-modal connections;
~ Automobile and rental insurance legislation, costs and conditions,
~ Airport operations;
~ Destinations with low-volume tourism industries identified as having conditions similar to or relevant for the province including islands and places distant from major centers;
~ Destinations experiencing vehicle rental shortages; and
~ Tourism plans and research for Newfoundland and Labrador.

5 Tourism Industry Concerns

There is concern that the business model of vehicle rental operations has a negative impact on tourism operations.

During the research phase it became apparent that there are a number of concerns about the negative impact of the current level of vehicle rental services on tourism operations, particularly in rural locations. These concerns centred on the number and type of vehicles available and the conditions under which those vehicles were provided to visitors.

Tourism sector operators felt that rental companies often lacked local decision making authority and were not active participants in the tourism sector.

5.1 Rental Operator Services

The predominant tourism industry concerns across all sectors were the following:

- Shortage of vehicles at peak times, and
- No option for unlimited kilometers—a standard service typically included in other jurisdictions, this feature is challenging for rental operators in so large a province. This is the most common renter complaint brought to the attention of tourism and industry officials. It is available to users who are willing to pay a flat fee or, in the case of packaged tours, it is included in the price. Often renters claimed they were not aware of this or that the rental company failed initially to draw their attention to this condition.

5.1.1 Tour Operator Concerns

Provincial based inbound tourism operators, including Maxxim and Vision Atlantic, and external tour operators are a sure source of leisure clients for rental operators. They serve clients with high expectations:

- Rental vehicles are core to packages and critical for visitor experiences. Pricing ensures that all inclusive kilometres and other features are included in packages.
- Clients have high kilometre usage—one operator averages 3,200 per client—allowing visitors to see much of the province.
- Clients average 11 nights, and some as high as 21 nights in summer. Winter stays are shorter.
- Lead times are getting shorter, bookings are being made later.
- Tour operators are working hard to educate and alert travel trade—at Rendezvous Canada and other trade and consumer travel shows they insist that clients and visitors must book ahead.

Tourism operators and marketers demand improvements in services available to visitors and other travelers.

Tour operator concerns are dominated by:

- ~ Loss of local managers and on-site servicing,
- ~ Major price increases,
- ~ Fewer new vehicles, more “gently used” vehicles,
- ~ Reduced value in product—a mid-sized vehicle is now a mid-priced vehicle, or less vehicle for same price,
- ~ Major discrepancies in fleet price and quality compared to Toronto rental services—and consumers recognize the difference,
- ~ Scarcity or unavailability of vans for groups and intergenerational families,
- ~ Substitution of different automobile brands,
- ~ Lack of commitment from long-term rental companies forced tourism operators to add or change rental operator or to negotiate harder to get national corporate rates, and
- ~ Changing rules and conditions without sufficient notice e.g. no drop off at destination, or no one-way travel.

5.1.2 Tourism Operator and Marketing Organization Concerns

Tourism operators and marketers echoed these concerns, raising more besides, and are demanding improvements in services available to visitors and other travelers. Concerns included:

- ~ No off-pavement use,
- ~ Restrictive charges for vehicle drop-off at alternative locations,
- ~ Increasing prices,
- ~ Unavailability of reserved vehicles, or substitution with models other than those reserved,
- ~ Increasing percentage of used vehicles (older models with more mileage) in the fleet,
- ~ Change in automobile brands available from operators, without notice,
- ~ Availability of winter tires— some operators automatically equipped their vehicles with winter tires at no additional charge, but there is pressure to make winter tires mandatory,
- ~ Limited or no after-hours service, when clients with reservations are left stranded, as are visitors without reservations,
- ~ Pricing—the term ‘gouging’ was frequently heard as research participants told of their own and clients’ experiences of being charged for substituted vehicles or having to pay additional fees,
- ~ Access to Labrador from the island—need clarity on when and how it is permitted,
- ~ Access to vehicles for guests who want to extend their stay, or who decide after they arrive to rent a vehicle, and

- Availability of vehicles for tourism trade marketing to provide familiarization tours for visiting travel trade and media; often planned itineraries and dates moved without cars being available as booked.

While anecdotes are not necessarily indicative of trends, the number and variety of them collected during research are indicative of how tourism operators, and their customers, were forced to find other transportation solutions. For example, with no cars available they rented U-hauls and cube vans. They hired tour companies. Visitors followed other renters as they returned vehicles in a bid to rent those vehicles. Frequently tourism operators and staff loaned their personal vehicles to visitors. Outfitters in Labrador used their own vehicles for side tours because rentals are often unavailable. And increasingly, car dealers were approached to provide vehicles.

Tourism operators, and customers, are forced to find other transportation solutions.

5.1.3 Group, Event, Conventions and Sport Organizer Concerns

Vans are the vehicle of choice for this niche market, and problems with availability are significant. A notable example was raised in Labrador by soccer organizers who booked vans well in advance, only to be told upon arrival at Deer Lake airport, none were available. They were compelled to rent multiple cars at considerable additional cost, rendering funds raised for the trip insufficient. Labrador teams are considering planning for tournaments in the Maritimes unless their vehicle rental needs are met by Newfoundland operators.

Given the growth in summer sport tourism, driven by new facilities for soccer, rugby, softball, golf and other sports, it is likely that the demand for these vehicle types will continue to grow and there will continue to be issues with availability of vans. Further analysis is required on the volume and distribution of summer sport events, and the availability and configuration of van rental fleets. Consideration should be given to alternative logistical solutions, including, in some cases, use of school buses. Coordination is required for scheduling and servicing in the best interest of the organizers, the host communities, the athletes and visitors.

Poor availability of vans is also an issue for event organizers, trade show exhibitors, musical groups, study tours and many other groups. Major events such as festivals and celebrations drive peak demand. Convention and conference organizers are also seeking shuttle services from the airport as well as vehicles for pre- and post-tours.

Further research is required on type and volume of group demand, and the type of equipment required.

Travelers are not getting the message that they must book in advance.

5.2 Sending the Right Message to Travelers

Tourism growth is driving demand for more cars. There are too many visitors getting off the plane, walking up to the vehicle rental counter and expecting to get a car, especially during peak season. Travellers are not getting the message that they must book in advance or they risk disappointment. Yet tourism operators are cautious about alerting visitors that there are shortages at critical times, thinking they might frighten away business. Most convention organizers only stress the issue to their clients after the contract is signed.

But this is a double-edged sword. Once visitors arrive, the apparent lack of available vehicles, and the conditions imposed on those that are available, impacts the length of stays and causes compressed visits, especially for convention travelers looking for a post-convention experience. Those who are flexible in the time of their holiday may be forced to shift the time of visit to a less desirable date. And the general experience among the province's tourism operators is that last-minute booking is impossible at peak time.

This issue is also exacerbated by consumer behaviour in response to this shortage. Vehicle rental operators note that many visitors make multiple bookings with several companies and then fail to show up, or are disappointed because they were not clear about their requirements or expectations.

Tourism operators believe that smarter technology available to tourists, combined with the requirements for credit card bookings as enforced for booking air travel and hotels, should be applied in the car rental industry. However this technology issue currently defies a local solution for vehicle rental operators while major rental companies wait to see which company will start demanding credit card guarantees. The vast majority of reservations for the brand operations come through central reservation services.

5.3 Disconnect between Tourism and Vehicle Rental Operators

The concerns that were expressed require greater discussion to increase knowledge and generate information on how to alert visitors and plan for service features that will support tourism growth and development.

Across the province tourism operators expressed their concern about whether rental companies are connected to the tourism industry. Many said vehicle rental companies are not seen as active participants, especially now with reduced local management and less access to people with solutions. Rental vehicle businesses have not been engaged in tourism industry organizations. They are perceived as reducing or eliminating benefits for tourism industry operators, for example HNL members no longer have access to unlimited kilometres, an essential feature of vehicle rental for rural-based operators whose facilities are distant from visitation gateways.

There is a general lack of knowledge about how the vehicle rental industry operates.

A central observation in this review is the general lack of understanding about how the rental industry operates and the low awareness of the radical and continuing structural changes in that industry. Given these changes and their impact on vehicle availability in the local market, tourism operators and marketing organizations have a critical role—perhaps even an obligation—to learn more about how the industry operates, in order to alert and influence visitors to book in advance.

Rental operations in this province are tied closely to global changes in the auto industry and to corporate rental companies.

6 Vehicle Rental Industry Operation

In order to gain insight into the reality of the business of the rental vehicle industry in Newfoundland and Labrador, it helps if all the stakeholders have the same fundamental understanding of the overall industry.

6.1 Global Corporate Operations

Local rental operations are tied closely to global corporate operations, not only of the parent companies, their corporate structures and brand management, but also to the global automobile industry.

6.1.1 Rental Fleets and the Automobile Industry

2008 and 2009 were years of crisis for the automobile industry. North American automobile manufacturers lost large market shares. Fewer vehicles were available last year to vehicle rental operator fleets throughout North America, in spite of plans for fleet distribution that were made typically a year in advance, and orders placed six months later. The impact of the automobile industry crisis on the rental vehicle industry has been profound.

Automobile companies offered less favourable pricing and depreciation. This had a major impact on rental operators. The days of generous lease and buy-back programs between rental operators and car dealers are disappearing. Also on the way out are arrangements where some rental operations were a side business for car dealers to flow excess cars.

With the loss of these supportive relationships, and the continuing pressure to remain competitive, vehicle rental companies began to change suppliers and soften their automobile manufacturer brand loyalty—for example Budget no longer offers only General Motors vehicles. Many rental operators now carry a higher percentage of risk cars (vehicles which operators purchase at a negotiated price, maintain during use, and sell for the best price they can get on the used car market).

With a new business model that includes uncertainty of supply and increased risk, rental operators charge higher rates, buy fewer cars, and operate them longer. On the other hand, while overall revenue is down in the industry these changes also mean that yield per vehicle is up. (for more information, see the Appendix I: *An Overview of the Car Rental Sector*)

6.2 Corporate Decisions have Local Impact

The leisure market (tourists) does not carry the weight of the corporate market.

Every major decision at corporate headquarters affects the local vehicle rental industry. Decision making is concentrated in headquarters in the U.S. for both the publicly traded and the privately held companies. As corporate ownership within the global vehicle rental sector changes, the industry must continue to adapt to changing market forces.

Well known rental brands are merging under concentrated ownership. Privately held by the Taylor family, the Enterprise Group includes Enterprise Rent-A-Car, National Car Rental, Alamo Rent-A-Car and Enterprise Commercial Trucks, and now National. It is the largest car rental company in North America with 170 branches, sales of 70,000 used cars a year and $12 billion in total annual revenue. It has more than twice the market share of the Avis Budget Group. Enterprise generates most of its revenue from local, off-airport locations. The primary driver of that revenue growth has been Enterprise's development of the insurance replacement business and home city market.

The Avis Budget Group is the largest publicly-traded car rental company in the U.S. It manages a fleet of approximately 410,000 cars and trucks through 6,700 locations and the two brands, Avis and Budget. In 2006, Avis Budget generated over 80 percent of its revenue from airport locations. Its two brands combined command over 30 percent market share in the airport car rental business, just ahead of Hertz (28 percent). With so much of its business at airports, Avis Budget is highly dependent on the airline travel industry, and is therefore impacted by factors in air travel. Because the company purchases 74 percent of its fleet under special repurchase or guaranteed depreciation programs (whereby they can sell vehicles back to the manufacturers at a guaranteed price) with Ford and General Motors they are subject to risks related to these manufacturers.

Avis Budget CEO Ronald Nelson revealed that they decided to de-fleet earlier than usual in 2009. Although they lost some leisure business because of that decision, he felt confident that this move was, "a profit-maximizing trade." So while the leisure market in this province (as elsewhere) was negatively affected, the Avis Budget Group and the Dollar Thrifty Automotive Group both improved fourth-quarter results from a year earlier with smaller fleets, fewer services and higher costs for consumers.

Each company has a different business model, and caters to certain customers. For example, a National client is more likely to be a corporate customer with certain vehicle expectations as opposed to an Enterprise customer who is more likely to be a local vehicle replacement customer, or a Budget renter who tends to be price driven. The leisure market business carries different weights within each company's overall business

Operating costs are extremely sensitive. Margins are slim.

Core rental rates are not increasing to keep pace with these costs.

High volume demand over longer periods is critical.

strategy, for example National's focus may be on the convention visitor versus the eco-tourist. Each company has different goals and expectations when it comes to chasing what some call the "fickle leisure customers."

6.1.2 Global Business Model

The business model for car rental operators leaves little room for manoeuvring. Operating costs are extremely sensitive. Margins are slim. They face many of the same fixed and variable costs that other businesses face—depreciation, financing, interest rates, marketing, maintenance costs, insurance, franchise fees, booking fees, and licensing. There are also hefty airport fees, shipping costs and gasoline, beyond those billed to the customer.

Core rental rates are not increasing to keep pace with these costs, so operators and their management teams must maximize revenue for the full year and life of the vehicle. As a further complication, the vehicle rental business is subject to tourism's concentrated peak seasons, which vary by destination. Fleeting up with vehicles they are required to keep for at least half the year or longer (based on the terms of the manufacturers' buy-back agreements) to meet that brief surge in demand is hard to justify as a good business case.

High volume demand over longer periods is critical. Or failing that, one way to maximize revenue would be to easily and cheaply move a fleet to other locations as happens, for example, in Orlando, Florida. That option is much more costly in Newfoundland and Labrador. Another way to maximize revenue is to charge higher prices, as done in some northern Canadian destinations.

In the current business model, the highly price-sensitive corporate customers are emerging as the consumers with the most power to influence the industry year-round. The leisure sector, despite its significant seasonal impact, has far less influence over the development and packaging of car rental terms.

Unlike the tourism accommodations sector, where most assets appreciate, their major assets—vehicles—depreciate. Success or failure is largely subject to fleet management, with factors that include:

- ~ The percentage of risk vehicles compared to the percentage of lease vehicles, and
- ~ Terms of the lease agreements with automobile manufacturers:
    - Short or long-term leases,
    - Buy-back or repurchase arrangements, and
    - Rate of depreciation.

Success or failure depends on maximizing revenue. Their revenues streams include:

~ Seasonal and promotional rates,
~ Corporate accounts, and
~ Optional features and equipment ranging from insurance, gasoline charge, drop-off charges, mileage, license fees, age penalties for drivers under 25 (and in some cases drivers over 70) and additional drivers, as well as charges for extra equipment such as child car seats, roof racks and winter tires.

Success or failure depends on managing fleets and maximizing revenues.

In northern Canada, variations in peak demand, the lack of competition, and the ability to charge premium rates, allows rental operators to transfer vehicles in and out, and still recover costs.

7 Vehicle Rental in Other Jurisdictions

This assessment included a thorough scan of other jurisdictions and destinations believed to have similar conditions as Newfoundland and Labrador: islands and places distant from major centers, including places with low volume tourism industries. (for more information, see the Appendix II: *Rental Operations in Other Jurisdictions*)

7.1 British Columbia

- ~ Operators work closely with car dealerships to access used vehicles during peak periods.
- ~ An independent franchisee operating out of Terrace BC controls sites in Kelowna, Kamloops and Penticton.
- ~ Locations have different demand curves and vehicles were moved between centres in order to meet demand. For example, cars are moved from Kamloops, with low summer demand for rentals, to Kelowna with its stronger tourism demand during busy summer months.

7.2 Northern Alberta

- ~ With no competition in the local area, and the ability to charge premium rates, the local Budget operation trucks in units from Edmonton and still recovers costs.
- ~ Cold Lake, Alberta, with a week-long military exercise at the local air base, requires 100 vehicles for 10-14 days.

7.3 Yukon

- ~ There are major seasonal swings in demand in the spring and fall.
- ~ One operation can only support 75 – 100 units, but in the summer the fleet requires 450 units to meet demand, particularly for European tour business.
- ~ There is limited competition—the operator charges more than $100 per day during peak periods, and uses 4 – 5 year-old vehicles with more than 100,000 kilometres.
- ~ Based on these numbers the business model can sustain lengthy periods of inactivity.

- Whitehorse is home for two-thirds of Yukon's population, with very little activity in outlying communities.
- Nearby Alaska is popular for tours and itineraries that include both destinations, including cruise visitors. Tourism officials want unrestricted cross-border traffic. Rental operators allow drop off and pick up and one-way routes. Consumers often work it out to have another user return the vehicle, by double registering.
- While RVs can be an issue for peak season, there is no evidence of major complaints about car rentals.
- Government and industry have taken an approach to let tour operators and car rental companies get the best deals they can, letting the market pay the required prices.

Tasmanian rental operators offer a 'migration special' to entice travelers to return their cars to mainland Australia.

7.4 Australia and Tasmania

- The Australian island state of Tasmania is challenged with de-fleeting and shipping vehicles back to the mainland.
- One company offers a "Migration Special" to entice travelers to move the cars for them, with reduced rates for up to eight days with pick up at various Tasmanian locations and drop off at various mainland Australia sites.
- The Tasmanian Tourism industry's strategic plan 2007-2010 reflects a destination very similar to Newfoundland and Labrador—with a slightly more mature industry. They are about to reach 1 million visitors in a single year and over $2 billion in revenue.
- They have similar challenges in improving air access and sea access but, while research literature pays considerable attention to methods of improving travel on the island, car rental shortages or related issues are not discussed.

7.5 Ireland

- A staggering shortage of rental cars is predicted to cost the Irish tourism industry more than a half a billion dollars in 2010.
- Between 2006 and 2009 the vehicle rental fleet contracted from 30,000 cars to 17,500.
- The recent report *Car Rental Fleet Shortages &Tourism in 2010* cites the problem could significantly delay a recovery in tourism, undermine the value of access transportation and accommodations, and damage the Irish tourism product as a whole—an area which the Government has identified as a key driver for economic recovery.

Aggravated by the reduction in the vehicle registration tax, a shortage of rental cars is predicted to cost the Irish tourism industry more than half a billion dollars in 2010.

~ The shortage is being driven by changes to a vehicle registration rebate tax on the purchase of new low emission vehicles, making new vehicles more affordable and used rental vehicles less attractive to consumers.

~ The Irish Tourism Renewal Group noted in their September report that "current difficulties in the car rental sector, to which the downturn in car sales have contributed, highlight the need for the industry, with agency support, to devise a new model for the sector – as well as short-term measures to support the availability of cars for hire."

~ It is suggested that if car rental companies match vehicle supply with real demand, the likely impact will probably be more expensive and limited vehicle availability. According to industry analysts, in order to resolve this conflict, tourism operators will need to convince government of the necessity of providing incentives to the market participants (car dealers, rental companies, vehicle purchasers).

~ The vehicle rental industry has partnered with the other members of the tourism industry in the past. They produced industry marketing, partnership and cooperative campaigns including a "Touring Ireland by Car" brochure in association with Tourism Ireland. All major franchises are present in their market. There are regular briefing forums and many contacts with official tourism organizations.

~ The industry is now working to ensure that government sees tourism as an export industry generating revenue, and to make it a priority issue.

8 Vehicle Rental Operations in Newfoundland and Labrador

While global operations and brands are becoming more integrated in this province, there are conditions related to the structure of rental operations, the cost of doing business, the stage of tourism development, and sheer geography which heighten the challenges for vehicle rental operations here.

8.1 Profile of Vehicle Rental Operators

There are eight global rental brands available in Newfoundland and Labrador—Budget, Avis, Enterprise, National, Thrifty, Dollar, Discount and Hertz—operating in varying licensee arrangements, some with local franchisees (see Tables 8-1 and 8-2). Six companies control 96 percent of the vehicle rental business.

There are a number of secondary operators offering localized services, including a recreational vehicle operation. These local operators provide a community based service, familiar to local residents and tourism operators. They are a source of rental vehicles for the tourism industry, often when vehicles are not available from primary suppliers.

Table 8-1: Licensee arrangements defined

Agency Operator	Parent corporation owns fleet and infrastructure, and directs all business decisions. Agency operator is responsible for staffing.
Franchisee	For a fee/royalty payment, franchisor assigns franchisee regional sales and marketing rights for that brand in a region. Franchisee must adhere to specific negotiated business practices.
Franchisor	Corporate owner of brand sets policy on marketing, sales, and operating policy.
Independent	Local operator—typically a car dealer—uses vehicle rental as a secondary support business.

Rental operations are shifting from local to global operations.

Corporate rental operations provide local operations with access to off-island vehicles without the long-term commitment required by local automobile dealers.

8.2 Management and Service Delivery

Management of vehicle rental operations in this province and how they deliver services has changed radically since 2005. These changes are driven predominantly by the shift from independent to franchise operations, and the move away from rental companies connected to car dealerships. In 2005 there were seven independents in Newfoundland and Labrador, all associated with automobile dealerships:

- Woodward Group with Tilden/National,
- Hickman Motors with Budget,
- Blackwood (and later Marsh) with Thrifty,
- Woodfords with Hertz,
- Terra Nova Motors with Rent-a-Wreck,
- Royal Garage with Discount, and
- City Motors with Avis.

One disadvantage this switch to the corporate business model brings for the local tourism industry is the loss of the personal connections that tourism operators enjoyed with local rental operators and their employees. Under this model, there appeared to be a more flexible way of doing business. Tourism operators calling on well-developed relationships "could always get a car." This allowed for a less formal, more last minute way of doing business.

Tour operators noted the impact of changing management structures. Now when tour operators negotiate contracts with corporate offices that are served by local franchisees they have to adjust contractual arrangements, accept higher pricing and work with more rental operators. While there are good agreements in place for 2010, changes over the last two years affected tour company revenue and the overall experiences of their clients in various ways, giving rise to the concerns previously described.

One advantage of the new model is that the large corporations can provide local operations with access to off-island vehicles without the long-term commitments required by local automobile dealers. For example Avis Budget brought in and shipped back a large number of vehicles for the 2009 peak season.

Table 8-2: Vehicle rental company profiles for Newfoundland and Labrador

Company	Type of Operation	Location of Outlets	Corporate Overview
Primary Operators			
Avis	Agency Operator	Airports: St. John's, Gander and Deer Lake Cities/Towns: Water Street in St. John's	Publicly traded company, based in Parsippany, New York All NL operations are agency operated, with local staffing
Budget	Agency Operator	Airports: St. John's, Gander, Deer Lake, Stephenville, Goose Bay and Wabush Cities /Towns: Topsail Road, St. John's; Clarenville and Corner Brook	Same as Avis
Enterprise	Franchisor	Airports : St. John's and Deer Lake Cities/Towns: Kenmount Road and Topsail Road in St. John's, and Corner Brook	Privately held company, based in St. Louis, Missouri Owns National and Alamo brands
National	Franchisee	Airports: St. John's, Gander, Deer Lake, Stephenville, St. Anthony, Goose Bay and Wabush Cities/Towns: Delta in St. John's, Port aux Basques, Hawkes Bay	Privately held by Enterprise Holdings company, based in St. Louis, Missouri Franchisee - Woodward Group, Happy Valley-Goose Bay
Hertz	Franchisee	Airports: St. John's Cities/Towns: Marriot on Duckworth Street in St. John's	Publically traded Hertz Corp. based in Park Ridge, New Jersey Franchisee - Jean-Pierre Andrieux acquired license to operate in province after collapse of previous licensee
Thrifty/ Dollar	Franchisee	Airports: St. John's (Dollar), Deer Lake Airport (Thrifty) and Gander Cities /Towns: Craig Dobbin Way in St. John's and Marystown	Publicly traded company, Dollar/Thrifty Auto Group, Tulsa, Oklahoma Franchisee – Marsh Motors, Grand Falls
Discount	Franchisee	Cities/Towns: Kenmount Road, Elizabeth Ave, and Topsail Road in St. Johns	Publicly traded company, based in Hamilton, Ontario Franchisee - Royal Garage

Company	Type of Operation	Location of Outlets	Corporate Overview
Secondary Operators			
Capital Motors	Independent	Kenmount Road in St. John's	Privately owned Subsidiary of Capital Subaru automobile dealership
Delta	Independent	Grand Falls	Privately owned Rents late model used cars and trucks
Practicar	Franchisee	Topsail Road in St. John's, Bay Roberts, Fortune, and Clarenville	Publicly traded company based in Calgary Alberta, a company focused on used car rentals and sales; recently closed the Grand Falls outlet
Goose Bay Motors	Independent	Happy Valley-Goose Bay	Privately owned car dealership; services and operates the Budget franchises in Happy Valley-Goose Bay and Labrador West; rents SUV vehicles for Trans Labrador Highway for a flat fee
Cabot Rental	Independent	Labrador Straits	Rental operator only for replacement vehicles for customers of Cabot Ford Lincoln, with their own vehicle insurance
Islander RV	Independent	Trans Canada Highway near St. John's, Grand Falls	Private NL company Rents recreational vehicles

8.3 Vehicle Rental Business in Newfoundland and Labrador

Rental operators in this province, like all vehicle rental companies, run on yield management by applying various incentive and sales driven management programs. Booking systems drive the business and internet booking has shifted into high gear in this province. In 2000 only five percent of rental vehicle customers booked online. Today corporate operations manage inventory by offering 80 percent to internet travel sites and travel agency global distribution systems (GDS).

Internet booking has increased to 80 percent of business; only 20 percent is held for local sales, corporate accounts and walk-ups.

The remaining 20 percent of inventory is held for local sales, corporate accounts and walk-ups. Advance bookings are becoming much more important and some local operators are proactive, for instance using convention lists to target delegates. About five percent of business is last minute walk-ups.

One challenge with advance bookings is the high no-show rates—as high as 30 percent in some locations. Aside from the internal cost of operations incurred by the vehicle rental company, there are third-party hard costs associated with each reservation, such as GDS segment fees. These have a direct impact on the vehicle rental company's bottom line.

It is time for rental companies to start demanding credit card guarantees for vehicle bookings.

Corporately, Avis Budget is reported to be leading an initiative to require credit card information for bookings to cover no-show fees. This could alleviate some of the disappointment of travelers expecting vehicles to be available when they arrive. The North American rental industry is watching if this works, it would be a huge step in bringing the vehicle rental industry up to the standards of the rest of the travel industry. In fact, the vehicle rental industry is the only major travel segment that does not ask customers to guarantee their reservations with a credit card.

8.3.1 Supply of Vehicles

Vehicle rental companies in this province, as they do throughout the industry, operate by purchasing or leasing a number of fleet vehicles to rent to their customers. Rental fleets can be structured in several ways, where vehicles can be:

- Owned outright—the vehicle rental operator purchases these "risk vehicles" on the assumption the rental revenue plus the money recouped in the used vehicle sale will cover the purchase price and allow for some profit.
- Leased—often an operator, particularly local independents, can negotiate with a local automobile dealer to lease new or used units for specific short-terms.

Rental companies carry a broader mix of products to meet their fleet predictions.

It is critical for rental operators to have a handle on demand and reservations.

- Guaranteed buyback — the vehicle rental operator purchases these "repurchase vehicles" directly through a manufacturer under a guaranteed buyback program. The manufacturer sets out a minimum and maximum term, calculates monthly payments based on depreciation and residual value after this term, and sets mileage caps and other specific conditions, including the model of vehicle.

Traditionally the vehicle rental operator brand determines the type of vehicles in their fleet but manufacturing problems have loosened brand loyalty. In 2009, it is estimated that 25,000 new vehicles were brought into the province, compared to approximately 32,000 in 2008. Hickman Motors, which negotiates fleet sales for a number of car rental companies, including Budget, Avis and Enterprise experienced unprecedented delays in delivery of new vehicles. These delays challenged their ability to fill vehicle orders. Typically these rental operators use General Motors products, but last year there were three Chryslers for every GM product.

This was likely the experience of all the Newfoundland and Labrador rental companies as they began to carry a broader mix of products to meet their fleet predictions. Provincial tour operators saw Thrifty, known for its Chrysler fleet, supply their customers with Toyota and Hyundai products. Hertz typically carries the Chrysler product, but the new franchisee, in response to supply issues, will have a mix of General Motors and Honda branded vehicles in 2010.

Because profitability is so closely linked to fleet size, the purchase of vehicles is tightly controlled. Car rental managers must determine plans a year in advance so they can be reviewed and approved at the corporate level as part of an international strategy. Once approved, orders have to be placed by the end of the year. Given the required lead times it is critical for rental operators to have a handle on demand, and on reservations.

Enterprise and Avis Budget have both indicated they will increase their supply of vehicles for 2010. By the end of 2009 Hickman Motors had placed its orders for core rental vehicles to be used in 2010.

8.3.2 Vehicle Shipping Costs

Transportation costs and time lost in shipping is a major issue for rental operators, especially at peak times. The cost of transportation for new vehicles purchased through dealers in the province is included in the price. However for operators who buy their vehicles directly from manufacturers and bring additional units to the province for the peak season, the cost of transportation to and from the mainland is extra. Shipping vehicles from Halifax via Oceanex can be as high as $400 per unit. The cost of moving vehicles on auto carriers from St. John's to Deer Lake is approximately $200 for each unit. Compare this to the $65 cost of transferring a car from Charlottetown to Halifax.

Oceanex shipped a large number of vehicles to the mainland in September of 2009, many of which were rental vehicles. Where some operators purchase few buyback units in this province, they ship their mainland inventory back after the peak season, where they can rent them for additional revenue in busier fall seasons. This maximizes revenue per vehicle prior to de-fleeting after the manufacturers' minimum "in-service" period has been met.

Time is money to rental operators. Every partial day a vehicle is not rented is revenue lost, and some operators measure revenue and yield in increments of tenths of a day.

While delivery time across the gulf is often faster with auto carrier trucks on Marine Atlantic vessels, the actual time it takes is affected by a number of variables. The auto carrier rigs must be available—and they have capacity for a maximum of nine units per carrier. Carrier operators need assurance that the commercial carrier reservation will be honored on Marine Atlantic. At times, auto carriers have been removed from the ferry or left behind for higher priority tourists and fresh produce traffic, especially at peak season in July and August. Sometimes they are delayed for as long as a week. This is a critical time for rental operators bringing in vehicles to meet that peak demand.

Oceanex carries the majority of vehicles into the province, but it had a major interruption in service in 2009. The *Sanderling*, with its capacity to carry up to 975 vehicles, had to be taken out of service for repairs. This was at a critical spring delivery time for new vehicles, affecting car dealers and rental operators. Oceanex did provide an alternative solution, by leasing the *Don Pasquale* to bring 2,000 vehicles to Argentia, but the delays were frustrating and costly to rental operators. Hickman Motors reported the delay impacted their ability to supply the rental market. During normal operations, rental operators said that vehicles can be idle for as high as 10 days, waiting for the next scheduled delivery. Operators want to have information to track where their vehicles are in transit.

Delays can occur in Halifax at the Autoport terminal where cars are held on their way to the province, or returned to be auctioned off in late fall or early winter. The transshipment facility receives up to 100,000 new cars a year for the Atlantic market from North American vehicle manufacturers. Any delays there cut into the yield management of vehicles, as well as the ability to meet reservation commitments at peak times.

Time is money to rental operators; a vehicle not rented is revenue lost; delays in shipping are a cost.

There is a serious bottleneck on Marine Atlantic at peak times when rental vehicles compete with visitor and supplier vehicles.

In 2009 an interruption in shipping caused major delays.

Registration refunding is more liberal in other provinces.

For competitive reasons rental operators and automobile dealers do not reveal the number of vehicles they ship in and out of the province for rental fleets.

8.3.3 Licensing Registration Fees and Service

There are wide variations in registration costs throughout Canada. Compared to Newfoundland and Labrador, however, there are more liberal programs for the refunding of registrations in other provinces. Typically refunds are prorated by the number of months a vehicle is used, less a small administration fee. However, in this province, refunds are based on:

- 60 percent refund on units registered for 1 – 3 months,
- 40 percent refund on 3 months plus one day – 6 months, and
- No refund on units registered for 6 months plus 1 day.

It is the denial of a refund after six months that creates difficulty for operators in this province. In virtually every case, vehicle rental operators are required by automobile manufacturers to keep fleet units in service for a minimum of six months prior to buy back. In order to qualify for a refund here, operators would have to ground the unit on the sixth month anniversary. This is not practical so operators are often unable to claim the refund per vehicle. Operators claim that in a business environment where margins are tight, shipping costs are extra, and the seasons are shorter, this amounts to an added unnecessary cost that diminishes profit. They are asking for this to be reviewed and relaxed.

Table 8-3: Comparison of Provincial rental vehicle licensing fees

Province	Licensing Fees
NL	$140 year (HST included)
NS	$128.90 to $199.42 (+HST) for 2 years; depends on size and class of vehicle
QC	$260.00 year
ON	$74.00 year
MB	$100.00 year
AB	$61.00 year

Rental vehicle operators are also frustrated with the amount of time it takes for motor vehicle registration, reporting that it can take 3 to 4 days to get vehicles licensed. They want a more streamlined service similar to that provided to car dealers. Hickman Motors, the GM and Chrysler dealer, handles license place processing for its customers, including rental companies purchasing fleet vehicles, and they are given more efficient service. Rental companies buying vehicles from other sources have to register each vehicle individually, a time consuming process with added administration.

Improvements in fees and services for motor vehicle registration are necessary.

8.3.4 Operating Costs

While corporate operations have an advantage over smaller independents when it comes to costs such as financing, purchase and sale, and infrastructure costs, the seasonal variations in demand are a challenge for every rental vehicle operation. During slow periods, operations can typically lose on every rental. Vehicle rental operators depend on supplying vehicles for peak season when they command the highest return on rentals. Once peak season passes, those additional vehicles can become a liability. So it is in their best interests to maximize their fleets, within each company's ability to de-fleet at the end of the peak season.

A typical cost scenario for a rental operator in Newfoundland and Labrador demonstrates in the next table that margins vary by the rate that can be charged in low or high season.

Vehicle rental operators depend on revenue from vehicles in peak season when they command the highest return on rentals. After peak season vehicles become a liability.

Table 8-4: Contribution margin for low and peak-season rentals

Season	Low Season	High Season
Daily Rate	**$ 45.00**	**$ 70.00**
Depreciation	-$ 27.78	-$ 18.52
Marketing Costs (Aeroplan/Air Miles etc.)	-$ 2.85	-$ 1.90
Vehicle Servicing Costs average $9/turnaround	-$ 4.28	-$ 1.28
Franchise Fees - typical 8% of revenue	-$ 3.60	-$ 5.60
Travel Agency/Internet Commission etc 5%	-$ 2.25	-$ 3.50
GDS Fees (Apollo, Galileo, Sabre etc) per transaction	-$ 3.50	-$ 3.50
Vehicle Insurance - assume flat rate/day	-$ 3.00	-$ 3.00
	-$ 47.26	-$ 37.30
Contribution Margin (to cover salaries, overhead, etc.)	-$ 2.26	$ 32.70
Assumptions: Average car cost $20,000 with depreciation rate at a rate of 30% per year – 2 .5% per month, interest rate financing at 6.5%, for 24 months		

There are additional variable operating costs such as airport fees, licensing costs, or gasoline not billed to renters. Most operations will surcharge fees per rental to recover or offset some of these items. There is some variance in these costs in this province relative to other provinces.

8.3.5 Airport Fees and Services

Most airport authorities in the country have adopted a percentage fee based on monthly reported vehicle rental revenue at the airport counters. They permit this "throughput charge" to be passed along to their customers—as long as it is not referred to as a tax and the amount charged is not more than the fee. In some cases, even operations with no presence at the airport are required to report and remit either a percentage or a flat fee for passenger pick up and drop off. Airport fees for Newfoundland and Labrador airports fall mid-range nationally. The fees listed in the next table represent typical charges to two main rental operators in Newfoundland and Labrador.

Table 8-5: Comparison of rental vehicle airport throughput charges

Airport	% Fee
Vancouver	17.24%
Calgary	15.61%
Fredericton	15.61%
Halifax	15.61%
Toronto	15.61%
Montreal	14.61%
Saint John	14.29%
St. John's	**13.90%**
Moncton	13.64%
Victoria	13.64%
Charlottetown	12.36%
Deer Lake	**11.10%**
St. Anthony	**10.00%**
Gander	**11.00%**
Goose Bay	**10.00%**

Close to 75 percent of rental business is done at airports; over half at St. John's airport.

Administration and management varies by airport. Some airport authorities have more interactive relationships with operators, and are engaged throughout the life of the contract beyond the pre-bid sessions. Contract periods vary—at Deer Lake contracts last three years, at St. John's contracts are set for five years.

Close to 75 percent of all rental business is conducted principally at St. John's and Deer Lake airports, with the majority of all rental business conducted at St. John's. Services and space provided by airport authorities, who earn considerable revenue from rental operations, are crucial to rental operators. Researchers heard that airports play a critical role in rental operations, as pipelines for air travelers, as an inherent part of traveler experiences, and as gateways to province-wide tourism. Rental and tourism operators want to work with airport authorities to ensure tourists and all travelers have the best experience they can. But rental operators expressed concerns about facilities at St. John's International Airport.

The next table indicates revenue to the Authority in 2007 and 2008. That income included funds collected and guaranteed by the car rental operators, which was estimated to be on average 11% of their revenue in 2008. Other costs paid by the car rental operators included approximately $500 per month in concession fees for each counter rental space. Those are reflected in overall concession fees, which also include airline counters and food court concessions. Rental operators also pay $50 per parking space per month for the main rental area, with a reduced rate for space needed in the overflow area. The airport authority collects the balance of parking revenue from general public short-term and long-term parking.

Rental parking facilities at St. John's airport are inadequate.

Consider consolidated rental car facilities.

Table 8-6: St. John's International Airport Authority Revenues

Revenues	2007	2008
Landing fees	$ 4,152,000	$ 3,985,000
Terminal fees	2,728,000	2,661,000
Concessions	2,915,000	2,902,000
Car parking	1,980,000	1,779,000
Rentals	1,375,000	1,351,000
Other	1,215,000	1,175,000
Airport improvement fees	8,293 ,000	8,200,000
Total	22,658,000	22,053,000

Rental vehicle operators told researchers they want access to market share information at St. John's airport; this information is available from airport authorities in other provinces. Leading operators want parking spaces to be provided on the basis of market share. At peak times, with demand so intense, there is minimal time to clean and turn around vehicles, and to provide the level of service clients expect at major airports. They expressed major concerns with availability of parking spaces:

~ More spaces are needed beyond the current 100 or so provided in the main area,
~ Overflow spaces are too far away and not satisfactory for major operators,
~ Current rental area lacks proper curb access, is poorly laid out, and is crowded at peak turnaround times, and
~ Spaces were expected to be provided in front of the terminal in the current short term parking space, in the lots aligned to the covered walkway.

As the Airport Authority budgets for capital development and expansion of facilities, consideration should be given to consolidated rental car facilities. Many airports aiming to reduce traffic, and make room for expansions, create these facilities to allow rental operators to expand as well. At Boston Airport, vehicle renters pay $6 per day in fees to contribute to a planned building to house eight car rental companies serving the airport, and to provide a shuttle bus system. A new consolidated rental car centre opened in 2007 in Anchorage after applying a novel private sector approach, engaging rental operators in the building design and renters paying a daily consolidated facility charge.

8.3.6 Insurance

Other provinces are changing vicarious liability to shift responsibility from the rental company to the renter.

Insurance costs are a major challenge, being as high as 12 percent of operations in this province. Rental operators in Newfoundland and Labrador are liable for the negligence of the people who rent their vehicles. This is known as vicarious liability.

Rental operators are prepared and committed to pay for primary unlimited coverage for any liability arising from negligent vehicle maintenance or employee negligence. But they do not want to pay for insurance for drivers-—they want the liability policy changed to move responsibility from the company to the driver.

The vicarious liability problem facing leasing and rental companies is not new in Newfoundland and Labrador or in some other provinces. Vicarious liability caps are in place for rental operators in British Columbia, Alberta and Ontario. In these jurisdictions drivers and renters must prove they have insurance, and can meet damages in accidents for which they are liable. In most cases the legislated caps on the amount that can be paid out in insurance claims is $1 million. Some jurisdictions set amounts for damages such as $10,000 per person, $20,000 per accident for bodily injury and $10,000 for property damage.

Atlantic rental operators are lobbying hard for change. They expect to have the policy changed in Nova Scotia, and then they intend to focus on Newfoundland and Labrador. They have requested government and industry support. Any policies or procedures that can help to cut this cost influences their profitability and viability.

In March 2005 the Public Utilities Board of Newfoundland and Labrador completed a comprehensive review of automobile insurance. The Board reported to Government on a number of issues including the impact of using caps or deductibles to limit monetary awards for pain and suffering, and the elimination of age, gender and marital status as rating factors, as well as other cost savings measures.

Even though insurance costs remain a major issue in this province, many consumers are willing to pay higher insurance for full coverage. Therefore, according to insurers in this province, insurance reform on any issue is not likely to happen.

Changing the policy in Newfoundland and Labrador to eliminate vicarious liability for vehicle rental operators requires making a solid business case.

Address the perennial dilemma of tourism: develop tourism products and activity that extend the tourism season beyond the traditional peak.

8.3.7 Revenue

In addition to seasonal and promotional rates, and rates given to corporate contracts, the table below demonstrates revenue that is derived from daily charges on a range of optional equipment:

Table 8-7: Comparison of optional equipment daily charges in NL in 2009

Option	Optional Equipment Daily Charges by Company				
	Avis	Budget	Enterprise	National	Thrifty
Underage Driver	$ 35.00	$ 35.00	$ 10.00	N/A	$ 30.00
Additional Driver	$ 10.00	$ 10.00	$ 10.00	$ 11.00	$ 11.00
Loss/Damage Waiver	$ 26.95	$ 26.95	$ 22.99	$ 26.95	$ 26.99
Child Seat	$ 12.00	$ 12.00		$ 10.00	$ 12.00
Ski Rack	$ 15.00	$ 15.00		$ 10.99	$ 5.00
Winter Tires	$ 10.00	$ 10.00		$ 11.99	
GPS Unit	$ 12.95	$ 12.95		$ 11.99	$ 9.95

8.4 Planning for Growth

Vehicle rental operators see great potential in this market and are committed to the long term. Each of the major companies reported continued growth in the number of vehicles in their fleets over the last five years. One operator factored annual growth of 5 – 7 percent into their plans, another operator plans on 10 percent growth. They all are pleased with the expansion in tourism business, reporting that September 2009 was their best September to date, and that October traffic continues to grow. Most operators planned to order additional vehicles. They report that while fleet numbers have been reduced in other jurisdictions in North America, fleets will not be reduced in Atlantic Canada.

They do argue however that “capital follows profit.” That translates into difficulties in convincing headquarter decision-makers that Atlantic Canada, and especially this province, is a good investment for purchasing additional vehicles. They have to counter arguments about the costs of doing business, the shorter tourism season, and the logistics of shipping vehicles in and out of the province.

8.5 Partners in Tourism

Many of the challenges expressed in Vision 2020 are the same for the vehicle rental industry. Like the tourism industry the vehicle rental industry is confronted with the perennial dilemma of tourism: develop tourism products and activity that extend the tourism season beyond the traditional peak, deeper into the shoulder seasons and eventually year round. The extent to which this can be accomplished improves the ability of vehicle rental operators to build larger fleets and eliminates many of the concerns expressed by the tourism industry with regard to availability and quality of vehicles.

Until very recently, vehicle rental operators in this province have not been recognized as partners in the tourism industry. Yet they too have to turn a three- to four-month peak business into a year-round operation. They also face unique challenges with fleet management and the rapid depreciation of their assets, as they continue to adjust to transformation in the automobile sector, evolving corporate rental brands and shifting traveler demand.

At HNL's 2010 Tourism Summit, a rental operator was elected to the board of directors.

At HNL's 2010 tourism summit in Gander, vehicle rental operators were welcomed as delegates, and a rental operator was elected to the HNL board. This recognition appears to be welcomed by both the vehicle rental industry and the tourism industry as an important first step in building stronger partnerships.

For two weeks in July and August, demand for rental vehicles is insatiable.

9 Demand for Vehicle Rental Services

9.1 Peaks and Seasonality

The peak demand for vehicles in Newfoundland and Labrador is typically a five to six-week period in summer. The largest operator reported their high volume period was from the last week of June to August 16. Another major operator reported five peak weeks within the period of June 24 and the end of August. All other operators report similar summer peaks.

But for two weeks the demand is insatiable—the last week of July and the first week of August. This is typically when popular events are staged and the highest volume of travelers move throughout the province. This is when three signature St. John's events happen back to back—the George Street Festival, the Royal St. John's Regatta and the Newfoundland and Labrador Folk Festival. There is a surge throughout the province during this time, in Come-Home-Years and events for visiting friends and relatives (VFR), and sport tournaments.

Tourists drive summer rental business. Corporate accounts and vehicle replacements drive core business throughout the rest of the year, but their business continues during the summer, especially travel for industrial projects and development in regions throughout the province. Shoulder season demand is increasing, extending rental business for some operators to the first week of October. There are some smaller peaks throughout the year—ski season, Christmas travelers, conference delegates and event attendees.

9.2 Availability of Vehicles

The exact number of rental cars available is difficult to determine. For proprietary and competitive reasons, operators closely guard fleet management and planning data. The provincial vehicle registration system provides information on vehicles registered by the operators or by the automobile dealers, but does not include vehicles shipped from and to the mainland.

The total estimated number of vehicles available to rent from the 54 rental operations throughout the province ranges from a high of 5,000 at peak times to an estimated low of 1,200 to 1,500 in the off-season. Three-quarters of all vehicles are made available at St. John's and Deer Lake airports, where the numbers of vehicles available continued to increase at rates of 5 – 10 percent over the last three years.

The peaks in demand and unavailability at the two principle gateway airports in St. John's and Deer Lake create a ripple effect for tourism operators, especially those in rural destinations. This can mean the difference between success and failure for these operations.

Concerns about shortages had been raised with the Department of Tourism, Culture and Recreation, and with Hospitality Newfoundland and Labrador. There were various media reports of shortages of vehicles in 2009. In March, 2009, the *Globe and Mail* featured a story about a couple who had attempted to rent a car on short notice the previous August. The story touched on tourism operators becoming aware of efforts tourists made to access a vehicle of any kind. Notable was the revelation that many visitors come to the province expecting to find a vehicle without booking in advance. The article made the presumption that car companies overbooked. A travel writer blogged in July 2009, that "renting needs to be done well in advance as cars are in shortage—great tip!"

Demand for rental vehicles will continue to increase.

Determining the extent of the shortage requires further research but the competitive nature of the rental business excludes the vehicle rental operators as sources of this data. Customer denial reports produced by companies are not available. They did report, however, that except for the last week of July and first week of August, vehicles were available, mainly at off-airport locations. Practicar and Enterprise reported that they had vehicles available most days in St. John's. Thrifty increased its fleet considerably when Hertz closed. One challenge that may fuel the perception of a local vehicle rental shortage is that, while there may be vehicles available on the lot, their inventory online may appear to be fully booked.

Industry sources specializing in sales of air, car and hotel products reported that vehicle rental companies sold out in some American markets in the fall of 2009. This was a new situation for internet travel companies such as Hotwire which actually had staff telephone vehicle rental call centers to confirm that the fleets indeed were sold out. This apparent shortage was attributed to significant downsizing of corporate fleets.

Most vehicle rental companies made major cutbacks in fleets for 2009. Shortages were seen earlier in the year, especially in Ireland, Spain and Portugal.

On an optimistic note, major car rental companies have announced new financing agreements that were expected to allow incremental fleet expansion in 2010. Industry watchers expect the vehicle rental companies will try to maintain the higher price points from last year even as supply increases.

Most rental companies are planning for growth in the range of 5 to 10 percent.

9.3 Continued Demand for Vehicles

Tourism in Newfoundland and Labrador held its own in 2009, sustaining 2008 levels of non-resident air and automobile visitation and accommodations occupancy. This was after fears that the North American and global economic decline would cause a drop in visitation and provincial tourism revenue. The industry remains optimistic that growth will continue in 2010.

With 75 percent of non-resident visitors coming by air—348,300 in 2009, an increase of 0.6 percent over 2008—the outlook for peak season vehicle rental remains positive for 2010. Most rental companies are planning for growth in the range of 5 – 10 percent, indicating they plan to increase fleet size.

Other positive indicators include:

- In-bound tour operators, who lost business in 2009, predict their business will return to 2008 levels.
- Marble Mountain has broken the 100,000 annual visitations benchmark and continues to attract increasing skier visits.
- The opening of the final section of the Trans Labrador Highway creates a great circle route attracting interest from Halifax-based European tour operators, and from travelers on the island and in other markets.
- The return of the Air Canada overseas flight between St. John's and London Heathrow as well as the St. John's to Goose Bay jet service is predicted to attract increased international visitation.
- Increased marketing and travel trade work by the province's destination marketing organizations will generate new awareness and interest.
- Expansion and improvements in the accommodations sector in Deer Lake and the St. John's region, Humber Valley, and Happy Valley-Goose Bay will lead to increased regional demand.
- Improvements and expansions in sport and recreational facilities will attract more national tournaments.
- Convention business in St. John's is expanding to a seven-month season running mid-April to mid-November. Conventions in Newfoundland and Labrador enjoy five-to-ten percent higher attendance than anywhere else in Canada, and pre- and post-conventions stays are the highest in the country. Expansion of convention facilities scheduled for 2012 will drive new levels of demand.
- Business travel will continue to be positive, especially in the St. John's region, but also with industrial projects in Labrador and in eastern Newfoundland.

10 Recommendations

10.1 Immediate Recommendations

The first set of recommendations is to take immediate action to improve access to vehicles during the 2010 peak season for travelers to this province and to maximize the benefit of improved transportation for tourism operators.

Focus on informing tourists and travelers in 2010.

Recommendation 1

Get the message out now to visitors to book a vehicle immediately.

This message needs to be incorporated in all communications from government, industry or tourism operators, in information and promotions presented to the public. It should include links to vehicle rental operators from tourism related websites. It should be part of the message in print and electronic advertising, used over the phone in scripted and unscripted messages, and noted in electronic reservation systems when taking bookings for rooms, conventions and attractions.

Recommendation 2

Develop a central information source during the peak season to gather, assimilate and disseminate daily reports on numbers and locations of available vehicles.

This is particularly critical for the peak season. It ought to include a database of information from all known rental operations, housed on a website, or with destination marketing organizations, a call centre or visitor information centres.

There were many days during the 2009 peak when cars were available—most often at off-airport sites. But judging from the frustration of tourism operators, they could use more direction from the vehicle rental operators on where to look to find vehicles.

At the 2010 HNL Tourism Summit, rental operators supported the development of a centralized information source of available vehicles during critical seasons. They see it as a useful tool to support their business and improve service to visitors.

A central repository needs the collective commitment of all stakeholders to work on the solutions and to be available. The channels of communication must be open—from the tourism operator on the frontline, taking the call, and driving their customer to book that car; to event organizers talking to each other to coordinate travel for large groups of people; to marketers and media; and vehicle rental operators.

Focus on building relationships among rental operators, tourism operators, government, marketing organizations, and suppliers, transporters, airports and others.

10.2 Recommendations to Build Relationships

Are vehicle rental companies connected to the tourism industry? The perception among the other stakeholders in the tourism industry is that they are not engaged. On the other hand, vehicle rental operators say they need to know what is happening in the tourism industry. The relationship is improving since a number of companies became members of HNL and attended its 2010 annual tourism summit, with one operator representative elected to the board of directors. Vehicle rental operators endorsed the recommendations of this report, after the presentation of the preliminary findings at the summit.

Recommendation 3:

Form a working group with a one-year action plan.

Assemble a group of representatives from the tourism industry, the Department of Tourism, Culture and Recreation, and all vehicle rental operators. That group, at its own discretion, may extend membership on specific topics to include destination marketing organizations, other government departments such as Transportation and Works, shipping companies, convention planners, and event planners for sport and festivals.

A focused approach is recommended, driven by a one-year action plan. By then issues related to vehicle rental can be addressed through relationships with HNL and the operators as well as monitored by the Tourism Board leading implementation of Vision 2020. While the working group will refine its activities throughout the year, it is recommended that as soon as the group can be established, they begin their work by:

- Continuing to implement and monitor the immediate actions recommended in Section 10.1.
- Preparing an action plan to address:
    - Key issues of importance to rental operators and tourism,
    - Monitoring tourism and performance indicators related to vehicle rentals, and
    - Communications—reporting on trends, updates, interaction among working group members.
- Addressing issues that impact the cost of doing business for rental operators:
    - Facilities at St. John's airport,
    - Shipping costs and efficiencies,
    - Vicarious liability insurance, and
    - Vehicle registration costs and processing.
- Maximizing marketing and product development opportunities for enhancing vehicle rental operator participation:
    - Plan partnership programs for 2011—advertising, and

travel trade and consumer promotions; determine central information source.
    - Pricing and packaging of driving and touring experiences for the shoulder seasons.
- Developing communications channels that help tourism and rental operators' mutual understanding of each other's business and oblige them to work together on a year-round basis. This should include sharing of plans for events, conferences and high demand scenarios.
- Finding ways and means to engage and inform regulators, shippers, dealers and others in their efforts.

Focus on research, market intelligence, planning, marketing and communication. Continue the commitment to keep rental operators engaged.

Recommendation 4

Hold an industry forum in the fall of 2010.

After the peak tourism season, bring together all working group members and other contributors, key tourism stakeholders, and all vehicle rental operators, to address concerns, and plan for the future. The forum can provide for sharing of information through formal and informal networking to build stronger relationships for long-term planning.

The agenda could include:
- Report on progress with the working group action plan.
- Learn from industry leaders, some who informed this report:
    - Bill McNeice, President, Association of Canadian Car Rental Operators
    - Paul Redmond, Chief Executive, Car Rental Council of Ireland
    - Chris Brown, Managing Editor, Auto Rental News

10.3 Recommendations for Mid- to Long-Term

Since the focus of this review is not only on 2010, but also on planning for growth and addressing the barriers that restrict car rental capacity, this final set of recommendations relates to long-term planning for tourism. These recommendations are presented without a detailed discussion but ought to serve as goals and tasks for the working group to institute and assign before its work is completed.

Recommendation 5

Conduct visitor research.

To measure visitor satisfaction with rental vehicles and determine their related buying behavior, gather targeted market intelligence and research through visitor surveys—at time of booking, entry into the province and immediately prior to exit.

Focus on long-term solutions.

Recommendation 6

Collect tourism intelligence.

Gather feedback and facts from tourism industry operators, track demand, measure impact and build the business case for rental operator growth.

Recommendation 7

Include vehicle rental operators in Vision 2020.

Integrate vehicle rental industry issues in all seven pillars of the Vision 2020.

Recommendation 8

Inform rental operators about cooperative marketing programs.

Work on informing rental operators about opportunities to include their corporate brands in cooperative programs; and encourage the vehicle rental industry to develop new campaigns which promote agreed messaging.

Recommendation 9

Include rental operators in product development programs.

Promote driving and touring experiences that extend shoulder season demand with regional itineraries and package pricing.

Recommendation 10

Maintain reminders to book vehicles.

Increase links and prompts on all sites and at all points of contact to encourage visitors and third parties involved in their travel planning, to reserve vehicles in advance.

Recommendation 11

Increase industry communications.

Increase communications among tourism and rental operators.

Appendix I: Overview of the Rental and Automobile Manufacturing Industries

A traffic jam of market forces in recent years has made survival in the rental industry extremely challenging.

The multibillion dollar car rental industry is highly consolidated with most of the revenue generated by a few very large companies (with the industry leader Enterprise operating more than one million vehicles worldwide). The industry demands large capital outlays. Profitability depends on the economies of scale and this puts newcomers at a disadvantage. This barrier to entry, plus significant competition, has combined to make the car rental industry a challenging forum for potential new entrants.

Rental car locations operate under one of three ownership models:

~ The **Agency Operator** is responsible for staffing and daily operation of the location. The corporation, which owns all assets including the fleet and infrastructure, is responsible for all business decisions affecting that location including such critical decisions as the number of cars on the lot.

~ The **Franchise** follows the same model as franchises in other sectors. The franchisee pays a fee to the franchisor for sales, and marketing rights to the brand in a specific geographic area. The Franchisor is the corporate owner of brand and, depending on corporate practices, maintains more or less final decision-making ability for marketing, sales, and policy and ensures that each franchisee follows negotiated business practices.

~ The **Independent Operator** is typically a locally-based automobile dealer who uses vehicle rental as a secondary source of revenue.

A traffic jam of market forces in recent years has made survival in the rental industry extremely challenging. These forces include volatile gas pricing, economic upheaval and a restricted credit market which have combined to create tough conditions for rental car companies' most significant business partner: the North American automobile manufacturers. They have been losing market share for a decade and are now in the midst of what to outsiders looks like an industry meltdown.

Car rental agencies are adapting with a paradigm shift away from brand loyalty. Since 2008 the sector has seen companies cut staff and close locations. Their reduced fleets now include a much higher percentage of risk cars (cars purchased outright and later sold as used cars to the highest bidder). In order to make this strategy work the rental car companies are increasing rates, buying fewer cars and operating them longer—some with as much as 50,000 km. This was unheard of in the industry before the current recession. In Canada, rental car rates have been rising steadily over the past two years, by as much as 100 percent for luxury sedans. (Source: Globe and Mail).

Revenue is achieved with 21.1 percent fewer cars in fleets, while collecting the highest monthly revenue per unit in a decade.

That adaptation does not come without a cost. Industry trends for 2009 indicate that total revenue for the U.S. car rental market alone dropped by 10 percent reaching 2006 levels. Rates in Canada are comparable. That is the first revenue decline in seven years. But it is worth noting that revenue was achieved with 21.1 percent fewer cars in the fleet than in 2006. Also on the positive side, the industry is collecting the highest monthly revenue per unit in a decade ($1,089 Cdn). (Source: Auto Rental News Blog). But that may not be enough.

Rental operators, whether corporate or independent, must “maximize” their fleets. This includes the ability within each company to “de-fleet” at the end of the peak season. Profitability is negatively impacted by not only too many cars on the lot, but also by too few. So accurate predictions and effective fleet management can mean the difference between success and closure.

The current environment in the rental car industry was precipitated by the massive restructuring of the North American automobile industry. Traditionally car rental companies were the biggest customers of the automobile manufacturers, with exclusive purchasing of 100,000+ cars annually. And in this environment, specific auto brands came to be associated with rental car companies. However rapid changes in the automobile industry are compelling the North American based manufacturers and the rental car affiliates to recast their relationship.

The rapid transformation of the North American automobile industry is being driven by two main factors. First is competitive pressure that is eroding market share. Toyota’s title as the number one manufacturer, surpassing General Motors, demonstrates that the business model of the foreign, nonunionized companies may be better suited to the emerging market conditions.

These economic challenges are complicated by a changing regulatory regime, economic government intervention, ongoing geopolitical instability, currency fluctuations, changing consumer needs in reaction to higher gas prices and global warming, and uncertainties about the way forward with regard to automobile fuel technology. (Source: www.cargroup.com)

North American manufacturers have contributed to their own financial difficulties through what amounts to a lack of vision for new products, and through costly labour agreements.

In the 1990s the Big Three (General Motors, Ford, and Chrysler) focused on large highly profitable sport utility vehicles. But SUV sales peaked in 1999 and have lost ground since then. This is attributed in part to gas prices and concern for the environment which created a consumer demand for fuel efficiency. During this time Asian manufacturers continued to build their brand as makers of reliable, fuel-efficient vehicles to capture a growing share of the market.

Falling sales and falling market share for the Big Three meant that their plants were operating below capacity while contracted to their unionized employees to pay out the highest wages in the international automobile industry. Their costs also included massive pensions and health insurance premiums for an aging workforce. On the other hand, the international manufacturers operating much closer to capacity, with a younger, cheaper workforce, enjoyed significantly lower per-unit production costs. It was estimated that Toyota's lead in labour productivity amounted to a cost advantage of $350 to $500 U.S. per vehicle over North American manufacturers. (Source: 2005 Harbour Report). This underscores why one of the conditions of the U.S. bailout package was that the Big Three reach labour-cost parity with the U.S. plants of Japanese car manufacturers.

The 2008 Harbour Report verified that the Big Three have begun to eliminate the North American productivity gap. The report attributes this to lean plants, employee buyouts, and other advances. But they still make less per vehicle due to higher health care, pensions, and sales incentive costs and the higher number of dealerships. In 2007 Ford lost $1,467 per vehicle, GM lost $729 and Chrysler lost $412. Among their competitors, Toyota made $922 per vehicle and both Honda and Nissan made $1,641. Some analysts predict that gap will narrow significantly in 2010, when North American manufacturers transfer retiree health care liabilities to new independent trusts.

As another part of their strategy North American based car manufacturers are finally introducing more fuel-efficient vehicles. Car-based crossover vehicles (CUVs) are the fastest-growing vehicle segment. New products, more efficient plants, fewer employees, renegotiated labour contracts and government loans may help the Big Three succeed. But an old truism of the industry has been proven wrong. They are not too big to fail.

In the meantime everything is eligible of the crusher, and that includes traditional rental car affiliates. As bulk purchasers, rental car agencies set the terms of the new cars sales into the rental market. An important part of that longstanding relationship was pre-agreed depreciation rates. These agreements reduced risk for the rental companies by guaranteeing that the manufacturers would buy back the used vehicles after six to eight months use. But they have revisited new car pricing strategies and car rentals are no longer seen as the way to keep cars rolling out and factories open. They tried to negotiate more rapid rates of depreciation from the

New products, more efficient plants, fewer employees, renegotiated labour contracts and government loans may help the Big Three succeed.

If rental companies match vehicle supply with real demand, expect higher rates and fewer vehicles.

rental affiliates. This made cars too expensive for the already tight margins in the car rental sector. So car rental agencies had to begin looking for a new business model. Whatever rental companies decide, the days of brand loyalty—where pricing discounts were awarded for heavy volume sales—are in the rear-view mirror. The new strategy of fleet diversification—albeit smaller fleets—allows rental car companies to lower per-unit costs and hedge risk against single manufacturer production problems.

Corporate rental car business models are tightening to manage yield per unit. Keen competition and the unprecedented changes in the North American automobile industry are directly impacting the car rental industry – the lack of new car supply, higher costs of capital and shrinking credit for financing new fleets, and meager buy back and leasing programs has led to fewer cars for dealers and rental operators. Their initial response was to close locations; cut back staff; reduce their fleets; change the profile to include more risk cars with higher mileage; and change their relationship with automobile suppliers. While most rental car companies made major reductions to the size of their fleets in 2009—producing shortages in many markets—the major companies intend to expand their more brand-diversified fleets in 2010.

Industry trade journals suggest that with less management presence at the counters and limited availability of vehicles, at much higher prices than previously, many customers are settling for inconsistent and mediocre service. Though rental shopping has become more predatory with a much higher percentage of rentals transacted on the web where consumers can more easily find and acquire the lowest possible rates.

If the market decides how much people will pay for car rental, and if car rental companies match vehicle supply with real demand, some analysts believe the likely impact will be a continuation of expensive rates and limited availability—especially in peak seasons. As rental car companies continue to evolve a business model in the economic climate, the highly price-sensitive corporate customers are emerging as the customers with the most power to influence the industry year round. The leisure sector has significantly less influence over the development and packaging of car rental terms.

Appendix II: Overview of the Rental Sector in Other Jurisdictions

Rental operators in remote Canadian destinations charge more and use older vehicles. The consumer is expected to accept these conditions.

This assessment included a scan of other jurisdictions and destinations believed to have similar conditions as Newfoundland and Labrador - islands and places distant from major centers, including places with low volume tourism industries.

British Columbia

In remote areas, independent franchises are often associated with car dealerships, and have access, albeit limited, to used vehicles from sales lots during peak periods. Such is the case with a licensee operating out of Terrace BC who controls sites in Kelowna, Kamloops and Penticton. Independent operators typically expand their operations based on sites that augment existing operations. In Terrace's case, the sites involved had uniquely different demand curves and vehicles were moved between centres in order to meet demand. For example, Kamloops would be considered an industrial market with a low summer demand for rentals and the operator would move cars to Kelowna during busy summer months.

Northern Alberta

Cold Lake, Alberta, is an example of a site with a tremendous seasonal surge in activity. Each year, NATO hosts a week long exercise at the local air base. This exercise calls for the need for approximately 100 assorted vehicles to accommodate the influx of personnel. While the exercise requires 10-14 days of rental time/vehicle, the lack of competition in the local area, along with the ability to charge premium rates, allows the local Budget operation to truck in the necessary amount of units from Edmonton, and still recover costs.

Yukon

Like Newfoundland, Whitehorse also has major seasonal swings in demand and a large amount of vehicles have to be acquired in order to meet reservation requirements; particularly for European tour business. However, the main difference between here and the Yukon is the fact that due to limited competition, the business model is able to support lengthy periods of inactivity. During spring and fall periods, the operation can only support 75 – 100 units, and runs in excess of 450 units during the summer months. Again, because of limited competition in that sector, the operator is able to effectively charge in excess of $100 per day during peak periods, and use 4-5 year old vehicles with more than 100,000 kilometres.

Collaboration among all tourism suppliers leads to well-managed capacity and inventory. Tourism has grown organically.

Whitehorse is home for two thirds of Yukon's population, with very little activity in outlying communities. A main attraction is its proximity to Alaska, especially for tours and itineraries that include both destinations. A valid passport or visa is required as per the immigration and custom requirements of Canada and the USA. The tour can operate with a start and end in Whitehorse, but Canadian residents cannot rent a U.S. registered car and drive into Canada from Alaska. Canadian residents can only start this program from Whitehorse.

Across the border in Alaska, visitors are warned to reserve rental vehicles early. During the tourist season in Alaska, agencies may have restrictions as to where the rental car may be driven and where it can be returned, and visitors are advised to check first if there are any driving restrictions. Some agencies forbid the vehicles' use on rough gravel roads such as the Denali Highway and the Dalton Highway. Some travel sites suggest touring from Fairbanks, where you can unofficially rent a vehicle (4x4 truck recommended) and drive the Dalton Highway, but point out that all major car rental companies explicitly prohibit the travel of their vehicles on a long list of Alaskan roads, including the Dalton Highway.

Tourism officials would like to see no restrictions on cross border traffic, especially for Canadians and other visitors touring Alaska by cruise who want to rent a vehicle to come into the Yukon. It's an issue requiring a higher level solution between both governments. Rental operators allow drop off and pick up and one way routes. Consumers often work it out to have another user return the vehicle, by double registering. There are no major complaints about car rentals

RVs are the main issue for peak season. The vehicle rental industry appears to be working well, and government and industry have taken an approach to let tour operators and car rental companies get the best deals they can, let the market pay the required prices, and control the conditions.

Tourism is important and Alaska is great source of visitors for the Yukon. There is a high level of collaboration among all tourism suppliers e.g. available bed nights are counted, the tour operator knows how many vehicles are needed, and the airlines know how many seats are required. Capacity and inventory are well managed, so that Tourism has grown organically. Air access is a critical issue, with international flights key to bringing in travel trade. There is much open dialogue and support for Air Canada for providing international access. Other airlines have been considered, but they believe in promoting the national brand because of its international routes feeding visitors to Yukon.

Australia and Tasmania

Australia has 55,000 rental vehicles, with five of the major corporate companies controlling 150 franchisees and about 30,000 vehicles. About twenty years ago the industry came under major scrutiny, resulting in its regulation under the Trade Practices Act. The regulatory reform arose from monopolistic concerns about aspects of the car rental business particularly insurance arrangements that led to significant consumer complaints. Considerable fines to the tune of $1.5 million were handed out to the industry over a cartel that fixed prices for one way car rentals between Alice Springs and Ayres Rock, and the Australian Competition and Consumer Commission continues its campaign against cartels and is introducing criminal sanctions to deal with serious cartels.

Twenty years ago Australia regulated the car rental industry.

Tasmania is an island off the coast of Australia. Like Newfoundland and Labrador in relation to Canada, it is part of the country but not part of the mainland. Moving vehicles from Tasmania back to mainland Australia after peak periods when the fleet was "topped up", was a challenge as it is here in NL when vehicles have to be transferred to mainland Canada. To rectify the problem, one company came up with a "Migration Special" to entice travelers to move the cars for them. They offered reduced rates for up to 8 days with pick up at various Tasmanian locations and drop off at various mainland Australia sites. Therefore the traveler effectively took care of the cost associated with transfer of the vehicle from the island to the mainland.

While overall automobile industry structural issues are affecting global car rental businesses, there are no striking concerns or issues in the country. The Tasmanian Tourism industry's strategic plan 2007-2010 reflects a destination very similar to NL, with a slightly more mature industry. They are about to reach 1 million visitors in a single year and over $2 billion in revenue. They have similar challenges in improving air access and sea access, and while considerable attention is paid to outlining how to make it easy to travel on the island there is no mention of car rental issues.

Ireland

According to a new report released in the first quarter of 2010, a staggering shortage of rental cars could cost the Irish tourism industry more than a half a billion dollars this year alone. After an 11 percent drop in visitations in 2008, the sector struggled greatly in 2009 with 6.9 million visits, the lowest number since 2005.

Between 2006 and 2009 the vehicle rental fleet contracted from 30,000 cars to 17,500. And that number is expected to drop again to 12,500 in 2010 as rental costs soar to $1,400 for a one week rental. Entitled *Car Rental Fleet Shortages & Tourism in 2010*, the report says the problem could significantly delay a recovery in tourism, undermine the value of access

Current difficulties in the Irish car rental sector highlight their need for a new model.

transportation and accommodations, and damage the Irish tourism product as a whole—an area which the Government has identified as a key driver for economic recovery.

The problem resulted in a sharp drop in the supply of cars for rent in 2009. In 2008, the car rental fleet had about 28,000 vehicles, including 19,000 new cars and 9,000 kept from the previous year. In 2009, the total dropped to 17,500 vehicles, a reduction of 37%. Only 6,200 new cars were bought in 2009. It is anticipated that, in the absence of corrective measures, the fleet will shrink further in 2010 to about 12,500 vehicles, just 48% of the 2008 number.

Irish tourism organizations started watching their car rental situation when the Irish Car Rental Council brought to their attention an impending shortage in 2010. The issue was raised for the first time in June 2009. The car rental market in Ireland peaks in July and August, Easter and Christmas with mid-season conditions occurring in May, June and September. Similar to this province, the short-term vehicle supply requirements make profit an elusive target. Vehicle rental industry leaders say it is impossible to rent vehicles for short periods during the peak season at costs that most tourists can afford.

According to the report, the shortage is being driven by changes to a vehicle registration rebate tax on the purchase of new low emission vehicles, making new vehicles more affordable and used rental vehicles less attractive to consumers. The Irish Tourism Renewal Group noted in their September report that "current difficulties in the car rental sector, to which the downturn in car sales have contributed, highlight the need for the industry, with agency support, to devise a new model for the sector – as well as short-term measures to support the availability of cars for hire."

The problem will be exacerbated by the one-third reduction in VRT for car rental operators in 2010 which the Irish government provided to car rental companies since 1994. The tax refund scheme led to competitive car rental rates, and now they see costs rising. Airports are looking for more and more concession fees. Funding availability for fleets has shrunk; and car dealers need to get more for the short term provision of vehicles as a byproduct of the depressed used car market.