



CASE ANALYSIS ON ZIPCAR



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Synopsis:

The case explains the development of Zipcar business model. It further explain how the business was developed, how improvement were made and what challenges were faced during the development of the business model.

Issues:

1. What is the potential of the business model in terms of Opportunities, size of market, demand and competition?

Sharing of a car by various users within the community as per their need was the major idea of this business. Organized car sharing through subscription was started in Switzerland in 1988 by Drive Stadtauto. The market had expanded its network and it seemed promising. Various organization such as Volkswagen had also seen the potential in this market and thus, conducted research on it. It was one of the promising business idea and many companies were operating in Canada, Portland, seattle etc.

Parking cost and less usage of privately owned car were the major reason why people around the Boston don't want to own the car. But they were also equally frustrated when using Cab or public vehicle. Boston had the population of 2.9 million where 1.12 million were households. The density per square mile was 1631 which suggested that the market is big enough.

In the market, there were opportunities in a sense that there was a gap between public vehicle users and private car users. Those who used bus and car, they were not satisfied by using public vehicles. But, at the same time, they forced to use the public vehicles due to lack of other options except privately own cars. Even though, those who owned private car, they faced hassles in terms of other expenses such as insurance, maintenance, and parking expenses. Private owners like to buy the car, but they are consuming less than 6,000 mile per year which is comparatively less in terms of car cost. They were only like to operate the car for the special occasions which operated less mile so that, they were not benefiting in optimum way by buying private car.

In terms of size of market, it is better to forecast the target revenue with the help of households rather than populations. Generally, numbers of households are 40 % of the population in Top 20

US. Markets. Regarding density per square mile, the potential markets or niche market can be seen in Anaheim-Santa Ana and Bergen-Passaic Counties, N.J.

Chase believed that there was a strong demand for niche product in the US. Due to the gap between service providers and service receivers in the market, Zipcar had identified that there was demand in those market. Not only demand, it was more likely to increase the demand in future. Chase revealed that there will be increase in demand which will lead to increase the number of membership in the Zipcar. This was proved by increasing the number of membership in each month from June to September. Even though, they are able to increase the member up to 239, they have not met the target as forecasted 440 members. But the plan also didn't work as per their expectation. If their technology was ready to go and all things were right in place, they would had focused more on increasing membership i.e. the number of member would have been higher.

Analyzing on the basis of Porter 5 Forces, regarding competitions, there was possibility of new competitors which deal with car sharing. Not only Volkswagen, but also car manufacturers are more likely to enter in the market if they saw substantial profits in car sharing business. And, if income increased in that area, there was high chance of buying private car which was threats to Zipcar Company. But there were no existed competition. Hence, we can assume that in terms of competition, the business model was safe.

Public vechile, cab and privately owned car was the major substitute of Zipcar. The probability of using public vehicle will be high if government provides subsidies for public transportation and discount for public users. Same applies if the price of parking for privately owned car goes down. Another threat is the financing facility which will reduce the cost owning car privately owning car. Regarding substitutes services, they can use others options such as cab, and buses, when they feel difficulties to provide online reservation for short miles. Thus, I terms of threats of substitute product, there is risk in this business.

In terms of buying powers of customers, they had less bargain powers because they had no option other than to use car sharing service and they were frustrated by using public vehicle or cab. In order to maintain the membership, Zipcar has to provide value to the target customers so at the price they were paying. Increase in loyal customers will lead to increase in retention ratio. By using car sharing, they were benefiting more compare to the individual who own car in terms

of economic as well as other facilities. Thus, less bargaining power of customer suggest that the business model is feasible enough.

Due to lack of fund, the car were rented. The suppliers perceived the risk is high in the market thus, increase the charge. The parking cost were also high and technology which was an important aspect of this business model was not prepared in time. Hence, in term of bargaining power of suppliers, there is risk in this business. But we can assume that, this was the result of other factors such as lack of funds. Hence, in terms of bargaining power of suppliers, the business model is moderately risky.

As discussed in above paragraphs, it is also clear that in term of threat of new entrants and competition, the market is moderately risky. But we also conclude that the risk is calculated and hence, it worth taking.

2. How is the business model changed between Dec 1999 and May 2000? What do the data from actual operations in September say about how the business model is playing out in practice? Does this data give you comfort or concern?

After a round of discussion with the many advisors and investors and other stakeholders Chase found that \$300 annual fee too high a hurdle. So she decided to lower the annual fee to \$75 per year. With these changing in annual fee; it had several impacts over other costs which she purposefully needed to revise. However with respect to actual cost which Zipcar faced; the revised financial projection was too optimistic. It projected to charge \$0.4 per mile but as per its actual data, we found \$0.14 per mile charge which is less by \$0.26 per mile. Also, its projected Members per car usage rate were 18 times while its actual usage rate is to be 12 times. Looking at this gap; Zipcar should increase the per miles revenue by increasing the miles travelled by the members. Getting into effective marketing promotion, focus on advertising can rise in its new membership. From these calculated results it's obvious that its revenue will be optimistic and could not meet its targeted profit as well as timely repay of its debt. Also, looking at these differences, investors might deny for further financing the project.

As per Zipcar's projected financial report, its projected Annual return on investment (before tax) was 19.77%. But looking at its actual financial report, it is not able to meet its projected revenue and other cost. As per September financial projection; it's about to generate \$176,000 which is

about 50% less. The report also showed that its other costs (lease cost by \$400, access equipment by \$100, parking cost by \$600 etc.) had been increased. It is obvious that these all increased expenses reduce the projected profit and its decreased revenue also support further decrease in its profit. By having all these facts and figures; the investors could raise the question for its revised financial report and may not invest further.

Regarding its convertible loan; it may not be fruitful if such schemes are provided. As per its projection; it might be a good sum of return but looking at its true figures it is generating about 50% less in its revenue and its increased cost on other items could reduce its return considerably by more than 50% which the investor could earn on other investments even in risk free bonds. Also its return is before tax return and when we consider the tax bracket it further reduces its projected return which has similar effects on its actual return.

Thus, chase was looking for \$1.3 million which was a huge amount. In order to achieve this target, more improvements had to be made regarding the through planning of cost and generation of revenue.

Analyzing the Business model so presented; its original pricing model should consider other factors like software installation and update costs, cost of financing like agents costs, advisory costs, etc. as well as tax bracket and even the cost of the entrepreneurs (Chase and Danielson). However it seems that projected cost could recover the COGS. But when we analyze the actual data then it's very questionable and doubtful to cover the COGS. It's well given that it had decreased in its revenue by about 50% than projected and its other variable and fixed costs like lease cost by \$400, access equipment by \$100, parking cost by \$600 etc. have increased to a quite large extent. It must once again revise its targeted revenue and cost looking into its actual figures.

Also, it has been given that its other variable cost like parking, fuel bills are expected to running 10% higher than expected. It need to consider further its marketing expenses to increase its membership which further increases its all overhead costs. As per projected report; its COGS is about \$130,000 per year while its actual revenue is about \$176,000 based on September's data which showed a loss of about \$74,000. In this way we can say that Zipcar could not to cover its COGS if this kind of revenue trend proceeds.

Revenues	Rate	Projected	Total	Actual	Total	Difference
Miles Travelled	0.4	92928	19360	16339	3021	14500.8
\$/Miles	0.4			2276	16339	0.14
members/car	440	24	18.33333	239	19	12.58

Before Tax Profit (projected)	70253
Revenue	355388
Before tax Return (projected)	19.76797

3. What actions should Chase take as a result of the September operating results?

Since, they are not meeting their target in terms of membership in Zipcar, there needs some proper marketing activities. Even though, Zipcar had succeeded to meet the marketing budget as forecasted, it was necessary to increase the marketing activities for meeting the membership target. Zipcar had fixed marketing cost \$12,000 for Year 2 to Year 5 except for Year 1 which was not reliable in a sense that marketing activities need to innovate according to market conditions. Car-sharing companies are growing 30% annually with spending very little amount in marketing head. But, the growth rate may not continue because market share can be attracted by other competitors. In that time, zipcar needs to spend more on marketing head in order to maintain the market share and growth rate. Till now, Zipcar Company maintains their customer through the free media, and word of mouth. But, it is better to make the marketing platform while company is in growing phase so that more customers can be attracted when there are few competitors. Most of marketing activities are done through downsizing the cost as much as they can such as brochure, postcards, web site. They need to make good marketing plan in order to survive in free economy.

Since, both Chase and Danielson are experts in different fields; they need to hire the people who have deep knowledge about car manufacturing. Having high academic degrees are not enough

while starting new venture. Practical or experience information is more important than theories because there will be different in real scenario. Sometimes, good and excellent theories may not work in practical case. Although, Chase believed that solid management team is necessary for raising capital, she has not made any plan regarding management team except bringing expertise and credibility people. Due to lack of expertise in car related functions, company might be high possibility to fail in future because same niche market can convert into hyper competitive marketplace in the future. Rather than managing part-time or full-time job for Chase and Danielson, it is better to establish the board team by paying optimum salary or wages who is responsible for overall operating functions. Zipcar can be managed better than current situation with the help of hiring specialized person in each department or section so that the overall departments are accountable for their roles and responsibilities to make productive.

Revenue is generated with the help of online reservation service which requires technician to operate and supervisor. In this business model, Chase has not mentioned details regarding the compensation for technology expert except spending in technology development.

4. What is the strongest argument Chase could make to a potential investor about the attractiveness of the venture? What, specifically, should her elevator pitch be at the Springboard Forum?

The strongest argument Chase could make to the potential investor about the attractiveness are:

- The market is growing at the rate of 30% and it has a huge potential.
- The technology it has developing is one of the best which will ease the process of business with ease. It will also be the competitive advantage for the Zipcar.
- Low marketing cost also attracts huge customers. Increasing the marketing cost can increase customers as per projected.
- The environmentally friendly concept.