

Zipcar college essay



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Porter's five forces applied to Zipcar Threat of new entrants: Potential new entrants include existing car rental firms, companies that currently supply cars to car-sharing businesses (such as Volkswagen), and new start-up car-sharing ventures. As Zipcar is operating in only Boston, there are opportunities for new entrants (with sufficient resources) to establish themselves as dominant car-sharing service providers in other cities.

This threat to the profitability of Zipcar's planned future expansion activities would pressure Zipcar to expand rapidly in order to remain ahead of the competition. A major barrier to entry is Zipcar's patented technology involving wireless transmission of usage data between the shared cars and a server. New entrants would require substantial time, human, financial and technological resources in order to design, build and implement technology to rival Zipcar's patented systems. They would also need to reach agreements with car manufacturers concerning the supply of vehicles, and secure parking spaces exclusively for subscribers.

Threat of substitutes: Major substitutes are taxi, rental car and public transport services. As prices must remain below or equal to those of aforementioned substitute services, a price ceiling has effectively been imposed on Zipcar. 5 Bargaining power of suppliers: Suppliers have little bargaining power as consumers are price sensitive and would face few switching costs in replacing Zipcar with available substitute services.

Bargaining power of buyers: Buyers have the power to force prices down by threatening to switch from Zipcar to substitute services. Rivalry among existing competitors: Rivalry between car-sharing businesses is limited because car-sharing companies in the U.

S. are not targeting each other's geographical markets. Zipcar operates in Boston, Car-Sharing Inc. in Portland, and Flexcar in Seattle. Rivalry is strong between Zipcar and companies providing substitute services, and this competition revolves mostly around price rather than differentiation. 6

Business Model Unlike car-sharing companies that already existed on the U.

S. West Coast, Zipcar has represented itself as an environmentally friendly company. This image is emphasised by Zipcar's green logo, which conveys simplicity and cleanliness. Zipcar further distinguishes its services from those of other car-sharing companies, and delivers value to customers, by focusing on: 1. Cost-effectiveness 2. Convenience 3.

Technological advancement Drivers pay only for what they use in terms of time and mileage. Fuel, insurance and parking charges incurred by drivers of shared cars are paid for by Zipcar. However, drivers are expected to maintain the cars and are responsible for any traffic or parking tickets incurred. In 1999 the price of usage was low, as profits were generated from subscribers' annual fees of \$300 each. However, the annual fee was reduced to \$75 in 2000 in response to complaints from consumers who could not 7 afford to pay such a large amount.

The decrease in annual fee was accompanied by the implementation of a tier pricing structure for vehicle usage. This tier pricing model has improved the cost-effectiveness of operations and secured more subscribers (those who would prefer to be charged primarily on the basis of personal usage rather than be required to pay a large fixed annual fee), resulting in profit increases for the company. Exhibit 1 illustrates that the tier pricing model

implemented by Zipcar in 2000 is generating profit for the company. Monthly usage per member generates most of Zipcar's revenue. The monthly cost of a car provided by Zipcar, \$40.

19 (Exhibit 2), is significantly less than the \$575 monthly cost of owning a car. Zipcar has also adopted a low cost approach to marketing. The company relies heavily on word of mouth (estimated 30-40 per cent of advertising) and free media (25 per cent) for promotion, as well as cheap (to produce) postcards and brochures that are distributed through communities. In addition, company cars display the Zipcar logo – the car itself is a travelling billboard.

Such advertising techniques have generated a lot of publicity for Zipcar, enabling the company to build brand recognition and attract customers without incurring huge marketing costs. Services are convenient because reserved cars are parked within short walking distance from user locations and public transport stations. In addition, reservations can be made online or over the phone at any time. Zipcar has invested heavily in developing a patented technology platform that can be used only by the company. Each driver is given a unique Zipcar card that can unlock the car door at the specific time for which the subscriber has booked. The driver need only be concerned with unlocking the car and driving.

While the car is in use, usage data is transferred (real-time) wirelessly to Zipcar's head office. Data is recorded and stored to ensure correct billing. The data collection and billing processes are timely, accurate and hassle-free, contributing to the ease and efficiency of Zipcar's business operations.

Furthermore, the reduction in manual recording (and therefore the use of paper) has reinforced Zipcar's green image. 9 Recommendations The minimum age for Zipcar drivers could be lowered to 18 years old.

Zipcar would be able to attract more subscribers and earn more revenue. Provided that the company's incident record regulations remain in place, most 18 year old drivers would be responsible and reliable. If there is doubt, younger drivers could be required to pay larger security deposits. Zipcar could offer a more diverse selection of vehicle types and sizes including cars, vans, mini-vans and bikes. Larger vehicles could attract bigger travelling groups, while bikes would appeal to those without a driver's licence or those who enjoy fresh air and exercise while being able to travel faster than on foot.

Zipcar should maintain vehicle supply agreements with manufacturers such as Volkswagen, even if prices are higher than hoped. The dissolution of such agreements could result in vehicle suppliers entering the market directly. They could utilise existing resources to compete against Zipcar. It would be better for Zipcar to work with, rather than compete against, these manufacturers. More money could be spent on advertising in order to really raise awareness of the company and the services that it provides. The target customer base could be broadened, with advertising aimed at older as well as younger people.

A reward system could reward drivers who have driven a certain number of hours or miles. This would encourage customer loyalty to Zipcar, and increase the frequency at which the company's services are used by

subscribers. The effect on profit would be positive. 10 Attractiveness of Zipcar 1. Industry and market Research indicates that the U.

5. arket for car-sharing has a revenue capability of \$200 million. 2.

Consumers Targeted consumers – well-educated (college), internet savvy, and living in urban areas – have proven to be open and receptive to the concept of car-sharing.

3. Growth The industry has the potential to grow 30 per cent per annum.

Demand for Zipcar services is expected to rise due to increasing awareness and understanding of the car-sharing concept. 4. Cost Structure Zipcar incorporates a low cost structure by minimising marketing costs and reaching satisfactory price agreements with vehicle suppliers.

5. Technology Zipcar's innovative wireless data transmission technology is patented. Billings are automated (online), accurate and hassle-free. 6.

Profitability The business is making profit, demonstrated by the May 2000 margin of \$90. 26 per member (Exhibit 1). Profit is expected to increase due to industry growth. 7. Membership Quality Control Zipcar sets out clear rules relating to the eligibility of subscribers to drive company vehicles. For example, drivers must have had no more than two incidents (accidents or speed violations) over the past three years, and no more than one over the past 11 8 months.

This is a good way to ensure the integrity, responsibility and reliability of subscribers, and thereby protect the vehicles from damage and the company from litigation. 8. Advantages of driving a Zipcar Affordable Subscribers can

rent a Zipcar at the hourly rate of \$5.5 and up to \$44 per day, depending on where they live and the type of car they choose. Convenient Subscribers have access to different vehicle styles and models, can reserve cars online or over the phone, and can pick up cars from convenient locations (usually within walking distance).

Environmentally friendly Car-sharing helps to relieve daily traffic congestion and parking problems. With fewer cars on the road, the amount of pollution in the air is reduced. 12 Conclusion To conclude, Zipcar is an innovative business with the potential to become the leading service provider in an industry that is growing rapidly. Much of Zipcar's success and has resulted from the emphasis placed on the three predominant features of its business model – low cost, convenience and eco-friendliness. One of Zipcar's greatest assets is its patented technology.

The technology is vital to the efficiency of operations and business processes, and deters potential new entrants to the U. S. car-sharing industry. Further capital investment is needed in order for Zipcar to refine its business model and processes, and to secure resources required for expansion. Such financing would significantly help Zipcar to realise its long-term potential as a highly profitable company that provides a highly valued service throughout the United States.