



Revenue Management in a Large Car Rental Company



Background

A large car rental was losing millions of dollars every month. The parent company was forced to take a huge charge against the ownership of the car rental subsidiary. Despite cutting costs and reducing employees, the company was not still profitable with the result that employee morale was quite low. The parent company stated that if the car rental subsidiary did not become profitable, it would be liquidated and all its employees would lose their jobs.

Challenge

The car rental subsidiary would be able to access historical booking rates, information on various class segments' demand and the data on cancellations, walk-ups, etc. But the car rental subsidiary was unsure what information was necessary to improve capacity utilization through both overbooking and planned upgrades, along with pricing and reservation controls. The challenges were:

- How should the car rental subsidiary handle overbooking?
- How should the car rental subsidiary handle LOR-based customer acceptance or rejection?
- How should prices be set?
- How should planned upgrades be managed?

The car rental subsidiary needed answers for the above questions and it needed them fast.

Solution

Our optimization solution with “yield management” or “revenue management” technology was a revenue-based turnaround as opposed to a cost-cutting turnaround: Our optimization technology was successfully applied at the car rental subsidiary; revenues were increased without a substantial increase in costs.

The integration of the optimization system catalyzed change in the organization. It supported more flexible fleet strategy and tactics. It led to the development and implementation of new products (Saturday-night keep rates, pre-paid rates, guaranteed rates). It has helped the car rental subsidiary give customers a higher level of service, especially their late-booking corporate clients. It upheld the car rental subsidiary's ability to serve customers who suffer broken reservations by its competitors. In the first year of deployment of our optimization solution, the company realized significant incremental revenue.