priceff

Pricing lessons from the car rental industry

Same fleet, more revenue

Practical lessons from car rental operators

Almost all car rental companies follow their competitors on price. It is the industry's established way of working, and for good reason: a competitor's price is important information, and you cannot ignore it in a market where the customer compares options side by side. But a competitor's price is only part of the full picture. It does not tell you what is happening with your own fleet right now.

Think of an ordinary Friday. A competitor lowers their prices, so you do the same. But what if your cars were already on their way to being rented out at full price? Then you lowered prices for nothing, on vehicles that would have been rented to customers without a discount. On another Friday the situation may be the reverse: competitors' prices are high, so you keep yours high. But then you can be left sitting with ten empty cars that would have been rented out at a lower price.

This guide brings together what we have learned from working with car rental companies. The message is clear: competitor monitoring is not something to abandon, quite the opposite. The best results come when competitor data is combined with everything else that affects demand: your own capacity, the season, the day of the week, public holidays, local events and the weather, along with your own clearly defined pricing strategy.

The key points

- Almost all car rental companies monitor their competitors. That is a good starting point, but a competitor's price only tells part of the story.

- A competitor's price says nothing about what is happening with your own fleet right now, and that is what determines whether the price should rise or fall.

- Competitor monitoring on its own can lead to a price war where the whole market sells cheaper than necessary.

- Every vehicle type has its own demand profile. Passenger cars, vans and trailers move at different paces.

- The same fleet brings in more revenue without a single extra car, when the price follows real demand.

- The best result comes from combining competitor data with your own demand, the season and other factors, not from choosing between them.

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Competitor-driven pricing costs more than you think

Most car rental companies know there is room for improvement in their pricing. Here we go through the most common ways the current pricing model eats into revenue every day, often without showing up in any report.

Competitor monitoring can lead to a price war

When every player follows the others, a spiral develops. One lowers the price to fill their fleet, another lowers it in turn to keep up, and a third follows the first two. Soon the whole market is selling cheaper than necessary, and no one really knows why.

The problem is that a competitor's price is taken as a signal, even though it tells you about the competitor's situation, not yours. If your own fleet is renting out well, there is no reason to lower the price, even if a competitor does. Lowering the price in a situation like that means giving a discount to a customer who would have paid full price anyway.

Manual pricing does not keep up with demand

Some operators optimise their prices by hand. It is better than a fully fixed price, but slow and heavy. When there are dozens of vehicle types and several locations, updating every price often enough is in practice impossible.

The result is that prices have time to go stale. The weekend demand peak is noticed only once it is already under way, and by then the best cars have often been rented out too cheaply. A quiet period is noticed only afterwards in the reports, when the fleet has already sat empty.

"If your cars are being rented out successfully, there is no reason to lower prices, even if competitors do. Competitors may have a greater need to lower theirs, if they don't have as strong a brand as you do."

Thomas Gräsbeck
Business Consultant, Priceff

One price, many factors

The same car, at the same location, can be fully booked on the weekend and half empty midweek. Yet the price often stays the same from day to day, because it is tied to a competitor's price or a level set earlier.

The alternative to pure competitor monitoring is a pricing model that reads many signals at once. Your own demand and capacity, the season, the day of the week, public holidays, local events and the weather together tell you how much this particular car is worth asking for right now. Competitor prices come along, but they set the frame rather than steering the price on their own. The sum of these factors determines where the price moves within the frame, and that movement follows your own demand rather than the neighbour's moves.

This is, in practice, demand-based pricing. The price starts from what is happening with your own fleet right now, and all other information refines it.

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What happens when pricing starts to work properly

Every vehicle type has its own unique demand profile

A passenger car, a van and a trailer do not move at the same pace. Trailers are rented in spring and summer, in winter hardly at all. Demand for vans is higher around the turn of the month and on weekends when people are moving house. The same month can be the peak season for one vehicle type and the quietest time for another.

When the whole fleet is priced by the same logic, the seasons for each vehicle type can go unused. The spring peak for trailers does not show if the price follows demand for passenger cars. Priceff's demand-based pricing mechanism analyses each vehicle type's demand separately, so that each of them can be priced optimally on an ongoing basis.

An unrented car brings in nothing, but a car rented too cheaply brings in too little

A fleet's revenue potential is determined from two directions. In busy periods it pays to ask more for the best cars, because demand is enough to cover it. In quiet periods a lower price instead gets the cars moving, so that they bring in at least something rather than sitting in the yard.

This is a balance that is hard to find by hand. The price should be high when demand is strong and low when the fleet risks going unused, and these situations should be spotted in good time. When pricing follows your own fleet's demand in real time, the same fleet brings in more revenue without a single car needing to be acquired.

"Many rental companies lower the price to get visibility, even though the bookings would come anyway. The right price is often found when you also look at your own demand and not just your ranking on the brokers' lists."

Kim Martesuo
CEO, Priceff

Brokers are part of the game, and visibility there depends on price

A large share of customers do not come to the rental company's own pages, but compare options through a broker. There, the price affects not only how appealing the offer is, but also where in the list the rental company appears. A good ranking brings bookings, and the ranking depends partly on the price.

This makes pricing even more important, but also more complex. The price should be competitive enough to secure visibility, but not so low that it eats into revenue when there would have been demand anyway. When the price also starts from your own demand and not from competitor monitoring alone, visibility can be sought when it is needed, rather than by constantly pushing the price down.

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The opportunities of demand-based pricing in car rental

Two things are usually expected of demand-based pricing: growth in revenue and a fleet that moves better. Both are realised most of the time, but they are not the whole picture. Here are three things that come up almost every time a rental company has used demand-based pricing for a while.

A lower average price can mean greater revenue

When the price falls in quiet periods, utilisation rises, when the cars would otherwise have stood still. When the price rises in busy periods, you get more for the best cars. The end result can be that the average price falls but revenue grows, because the cars are moving more often and bring in income when there is demand.

This is an important insight, because the average price is often followed closely, and a drop in it can look worrying. What matters is not the average price but how much the fleet brings in as a whole.

Better profitability without extra fleet

A rental company's revenue depends not only on how many cars stand in the yard, but on how well they are in use and at what price. When every vehicle type at every location gets a price that follows its own demand, you get more out of the existing fleet.

paku ovelle.com

PakuOvelle, Finland's largest rental company specialising exclusively in vans, grew its revenue by 18 percent and its rental hours by 29 percent in the first year with a demand-based pricing model, without expanding the fleet or hiring more staff.

The routine work takes care of itself, freeing up time for more important things

When there are dozens of vehicle types and several locations, updating prices by hand is constant work. At some rental companies there are people whose days are largely spent following and adjusting prices.

When pricing is automated, this time is freed up. It can be used for what really requires a person: planning the fleet, opening new locations, developing the customer experience and the big lines of the pricing strategy. Priceff takes care of the daily routine.

"A car rental company's potential lies not just in the number of cars, but in how well the fleet is used. Priceff helps you grow revenue without a single extra car."

Thomas Gräsbeck
Business Consultant, Priceff

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Implementing Priceff

Demand-based pricing can sound complicated, but in a rental company's day-to-day it shows up surprisingly simply. The way prices come about changes. Everything else stays as before.

The partnership begins with a mapping

What is being priced, how pricing works today and what is being aimed for with it? Do you want to use competitor monitoring and in what way, how long are the rentals being priced, and in which direction should pricing be steered? We configure the system to support your strategy.

Weeks 1–2

Mapping and configuration
We go through the current pricing, the goals and the historical sales data. The system is configured to match your specific operations. It is often wise to start with one product, gather experience and expand from there.

Weeks 3–4

Test run
The system calculates prices but does not yet take them to sale. We look together at how the prices appear and make the necessary fine-tuning.

Week 4 onwards

Pricing goes live
In the early stage we hold short weekly check-ins, which become less frequent as we learn the setup.

Ongoing development

Once or twice a year we hold a broader workshop, where we go through the results and develop the strategy further.

At the same time we carry out an analysis of the historical data. We go through the rental company's sales data over several years and identify demand patterns: seasons, variation between weekdays, and differences between vehicle types and locations. This groundwork ensures that the system understands from the very start what kind of environment it is working in.

The system is up and running in a few weeks

Implementation usually takes two to four weeks. The integration is done alongside the existing booking system, either through an interface or a file transfer, and it requires neither replacing the system nor a large IT project.

Before launch, a test run of a few days is carried out, where the system calculates prices but does not yet take them to sale. This gives the chance to see how the prices look in practice and to make the necessary fine-tuning before launch.

"Every customer has their own unique starting point in their business. Our job is to make sure the system serves your goals specifically."

Kim Martesuo
CEO, Priceff

The system works in the background

Once the system is running, it calculates and updates prices continuously according to demand in real time. Every vehicle type at every location is priced separately. The rental company sees the full picture from a view that shows where you stand and why.

The rental company always sets price limits within which the algorithm operates. These limits ensure that pricing stays commercially sound and does not produce surprises in either direction. If competitor monitoring is used, the limits can be set based on the competitive situation, and your own demand determines where the price moves within them.

In the early stage we hold short weekly check-ins, where we go through the situation, answer questions and suggest changes as needed. Over time the meeting rhythm thins out, as the system finds its balance and the rental company learns to read the data it produces.

Development continues

Once or twice a year we hold a broader workshop, where we go through the past period's results and make the necessary changes for the next one. Where did we gain more revenue, where better utilisation, and what can still be improved?

Demand-based pricing is not a one-off project. It is an ongoing process that is refined as data accumulates and the business develops.

Thomas Gräsbeck | Business Consultant, Priceff

Let's look at your situation together

I have helped build working pricing strategies for car rental operators. Every one is different, but the same question comes up almost every time: how much revenue is lost because pricing follows competitors rather than your own demand?

Book 30 minutes in my calendar, and we'll go through your situation and see together what demand-based pricing could bring to your fleet and locations specifically.

Book a call »