

Meltdown 101: Rental car slowdown hurts automakers

By Kristen A. Lee

U.S. automakers have been struggling to sell cars ever since the economy went south. Now it looks like a sharp drop in travel spending - specifically, on rental cars - has also caught up with the troubled industry.

Rental car companies, a major customer of the automakers, have seen demand for their services fall since the financial crisis erupted in September 2009, prompting businesses and consumers to cut back on travel spending. With cars sitting idle in their lots, rental car companies are much more inclined to scale back their fleets than to buy new vehicles.

Large-volume sales - also known as "fleet sales" - to rental car companies and municipalities typically account for about 20 percent of auto industry sales. So a sharp drop in rental car demand is enough to make a bad sales month for the U.S. auto industry dramatically worse.

On Tuesday, Chrysler LLC sales chief Steven Landry told reporters that a drop in fleet sales could help driver U.S. auto sales way down. Later in the day, Chrysler reported that its U.S. vehicle sales plunged 55 percent in January, driven by a steep 81 percent drop in fleet sales compared with last January's levels.

General Motors' sales tumbled to 49 percent on an 80 percent drop in fleet sales, while Ford's sales dropped 40 percent as fleet sales fell 65 percent.

Here are some questions and answers about how cutbacks in travel spending are affecting rental car companies and slashing into U.S. auto industry sales.

Q: How are rental car companies responding to the drop in travel?

A: To stay ahead of falling demand, the companies have been working to reduce their fleets by selling cars and holding onto vehicles longer, rather than replacing them.

Hertz Global Holdings Inc. accelerated plans to shrink its 300,000 vehicle fleet in the third quarter of 2008. Enterprise spokeswoman Christine Conrad said the chain's fleet size in January, on average, was 7 percent smaller than it was in January of last year.

Rivals Avis Budget Group Inc. and Dollar Thrifty Automotive are also scaling back.

The downside of this strategy: The rental car companies have been forced to unload some vehicles into a weak used car market, so they're not fetching great prices. However, FTN Equity Capital Markets analyst John Healy noted that used car prices have started to show some improvement.

Q: What do sales to rental car chains mean to the auto industry's bottom line?

A: Bulk sales to rental car companies and other fleets are much less profitable than retail sales to individual consumers, because they are sold at deeply discounted prices. Sometimes they even come at a loss to carmakers looking to unload unwanted inventory.

So while a drop in fleet business may reflect very badly on automakers' sales numbers, it may not be as tough on their profits. In fact, Chrysler Vice Chairman Jim Press said Tuesday that the company's 30 percent sales drop last year was a healthy sign because it eliminated about 200,000 fleet sales that would have been unprofitable.

Landry, the Chrysler LLC sales chief, estimated that the company made roughly 40,000 fewer fleet sales in the month of January.

Q: Which automakers are most affected by rental car cutbacks?

A: In general, domestic rental car companies buy more vehicles from U.S. automakers than foreign ones, Healy said. He noted that Dollar Thrifty Automotive Group Inc. has large number of Chrysler vehicles, Avis Budget Group Inc. buys more cars from General Motors Corp. and Hertz Global Holding Inc. is more closely tied to Ford Motor Co.

Q: Are rental car companies buying any cars at all?

A: An announcement by Enterprise Rent-A-Car on Tuesday that it is adding about 5,000 gas/electric hybrid cars and SUVs to its nationwide fleet shows that there is at least some demand among rental companies for new vehicles.

"They are buying cars right now," Healy said, "but they are buying less cars than the (automakers) would like them to."

Despite the overall drop in rental car demand, Enterprise spokeswoman Lisa Martini said consumers and corporate customers have continued to express interest in hybrid cars. She said the demand is particularly high in urban areas and at airports with large numbers of business travelers, where the company has concentrated the new vehicles.

With the addition, Martini said Enterprise's hybrid fleet now totals about 7,000 vehicles.

Most of the new fleet consists of Toyota Prius hybrids, although the company also has a large number of Ford Escape SUVs, as well as Nissan Altima & Toyota Camry hybrids.

Q: What does all of this mean for rental car customers?

A: As rental car companies have dealt with having too many cars for the pace of demand, rental prices have dropped steeply for people who still want to travel. Hotwire.com, an online discount travel agency, was advertising rental car rates for less than \$10 a day on Tuesday.

But those deals may not last long. As rental car companies reduce their fleets below the level of demand, analysts expect prices to rebound - Healy said prices may recover as early as this spring.