Case Study

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HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the case study "Acquiring Zipcar: Brand Building in the Share Economy," by Susan Fournier, Giana Eckhardt, and Fleura Bardhi (Boston University School of Management, 2012).

Can an auto rental company fully integrate its car-sharing start-up without losing customers?

by Susan Fournier, Giana M. Eckhardt, and Fleura Bardhi

Learning to Play in the New "Share Economy"

Henry Beyer walked up to a Mini Cooper in the city parking lot across the street from his office in downtown Houston. He waved his brand-new VillageCar card near the door handle and got in.

"It looks like someone left something behind," his colleague Tony Cummins said, reaching into the back and picking up a pair of socks. He laughed; Henry grimaced.

The two were executives at Beacon Car Rental, one of the industry's most established and respected firms. Henry was the senior vice president of operations. Tony, the chief marketing officer, had suggested taking a drive so that they could talk about Beacon's latest acquisition—VillageCar. He knew Henry would be making the call on how to integrate the car-sharing company, and he wanted to bend Henry's ear about it.

"Have you ever been in one of these things? We barely fit," Henry said, looking at the roof just an inch or two above his head. Both men were more than six feet tall.

Tony admitted that the car was a strange place to meet. "But I wanted to talk with you," he explained. For the past five years, Henry had led the integration of all Beacon's acquisitions, and he had the process down to a science. *Bloomberg-BusinessWeek* had featured the firm in an article about companies that take speedy approaches to M&A while remaining sensitive to the human costs.

"This one is going to take a little more time than usual," Henry said, "but I assured Mark this morning that we'd get it done, like we always have." Mark Lewis was the CEO.

"Still, I don't want us to lose sight of what a game changer this acquisition is," Tony said. Henry rolled his eyes.

"Let's not overstate it," he replied. They'd been having the same conversation for months.

"It *can't* be overstated," Tony said. "Think about it: We're not in a rental car, we're in a *shared* car."

"Rental, shared. Same difference."

As they turned onto Fannin Street, just a few blocks from their office, Tony pointed out another VillageCar, and then another. Instead of sitting in rental car lots, they were parked in dedicated spots in public areas, for easy access. One was a Prius, the other a Nissan pickup truck. "We'll be able to tap into a big demographic that dreads being seen in a Ford Taurus from Beacon—or in anything from Beacon," he said. "These are people who get dewy-eyed about sharing. When they get a VillageCar, they're making a statement that they want to *access* things, not buy them. It's anticonsumerist, pro-environment, pro-community—everything Gen Y loves."

"I know I'm an ops guy and you're the marketing guru, but I don't buy it," Henry said. "The experience just doesn't feel special to me. The guy before us didn't fill the gas tank, and he barely showed up on time. He didn't even wave as he ran off. What's so pro-community about that? Apart from the empty gas tank and the socks, this seems exactly like a rental. Why should the VillageCar deal be any different from Starr?" The year before, Beacon had acquired a smaller rental car chain that had hundreds of locations in the Southwest.

Tony shook his head. "You know I think we mishandled Starr. It was clear the brand had cachet in the region, which we could have leveraged. But we ended up integrating it to death. If we treat VillageCar the same way, we're going to lose all the potential benefits and miss out on a huge opportunity."

"We've gone over this already," Henry said. "The goal should be to use our scale, capabilities, resources—everything we've got—to make VillageCar more profitable. It's going to benefit from our fleet-purchasing power. And its in-town parking spaces will help us build our presence in urban areas. Not to mention, it will give us access to a younger customer base."

"But this is our opportunity to get in on a trend," Tony said, rapping gently on the dashboard. "More and more people are opting out of owning; they're willing to pay to temporarily access something. It's not just car sharing. It's music sharing, bike sharing, apartment sharing, designer clothing sharing, dog sharing. Even dogs, Henry! That *Forbes* cover story estimated that the share economy will be a $3.5 billion category this year. I've said it before, and I'll say it again: The best path forward is to keep VillageCar separate—the operations, the branding, everything."

"Come on—we both know the costs of that," Henry said. "Mark would balk at the inefficiencies." The CEO was known for running a tight ship. "And we haven't seen any evidence that VillageCar's model is a radical departure from ours or that its customers behave differently. Sure, there are things about the model we should adopt—shorter rentals, more-convenient locations. Fine. But when it comes to cars, 'sharing' is just a fancy word for 'rental.' The only thing customers are sharing is the crap they leave in the backseat."

A Third Opinion

Later that afternoon Annabel Howard, Beacon's CFO and Henry's boss, leaned back in her chair. "I'm hardly ever the tiebreaker," she said.

"We don't want you to settle anything. We just need another opinion," Henry told her. He and Tony replayed their debate.

"What's the big deal? Clearly a full integration is the most cost-effective approach. We'll get rid of the overlaps, maximize the synergies, and be done with it," Annabel said. "I have no interest in creating an unwieldy bureaucracy. Managing multiple brands, running separate IT systems, setting different price structures—it would be a mess."

Henry smiled at Tony, gloating a little.

"But this is different," Tony countered. "VillageCar isn't like Starr or any of the others. Starr was a straight-up rental car company, same business model as ours. It gave us access to a new geographic market. I thought there was some marketing benefit to retaining the brand, but you all disagreed, and I lived with it. This is a much bigger opportunity."

He leaned across the desk. "Think about it from a risk management perspective, Annabel. This may be just what we need." Their industry was struggling. The basic business model hadn't changed in 30 years, and Beacon, like all the other major players, was forced to compete more and more on price. Annabel had been saying that this was a big risk and might eventually turn car rentals into a commodity, with no way to win.

"Hmm—I hadn't quite thought about it that way," she said.

Now that he had her attention, Tony kept going: "Maybe we need to go out with VillageCar in front. We don't want to miss the boat, like Kodak did with digital photography. Maybe it's time to shake things up." He told her he'd been at the VillageCar headquarters the previous week with Mark. "The energy there is great. We need some of that: the start-up feeling that anything's possible, that we can change the world. I worry that if we gobble the company up and treat it like a business unit, we won't innovate on our existing model, and we'll be left behind."

The three of them were silent for a moment. Then Henry spoke: "We'd be adding costs instead of taking them out."

"That's true," Annabel said. "But maybe the costs of *not* changing our model would be even bigger."

Customer Research

A week later Henry hurried down the hall to Tony's office. He knocked but then quickly opened the door without waiting for a response.

Tony swung around in his chair. "What's the emergency?"

"Remember what I said about sharing being hype?" He set a paper down on Tony's desk; it was an article from the *Journal of Consumer Research*.

Tony stared at the title and abstract, trying to decipher the academic language.

"Bottom line," Henry said, "this is a study of car-sharing customers. Out of all the things they value about their experience, the biggest one is access. The

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environment and community aren't even on their radar. They care about affordability and convenience, just like Beacon's customers do. Functionality is all that matters."

Tony up picked the paper, stared again at the abstract, and shrugged.

"Take my word for it," Henry said impatiently. "I've been studying this for the past hour. And it's pretty clear: We need a clean, straightforward integration, like I said. We get VillageCar's customers, we can adopt its shorter-rental model, we take over its locations, but ultimately we give those customers what they want: good prices and convenience. And no socks in the backseat."

"And the name? We're going to kill 'VillageCar'?" Tony asked. "No one over there is going to like that. They agreed to the acquisition assuming we'd keep their brand intact."

"But we didn't make any promises. I say no separate brands." Henry argued that two brands would be too complicated for customers; they wouldn't know which company they were dealing with.

"That's not necessarily true," Tony said. "Look at Toyota and Lexus: two different brands, two entirely separate consumer groups. Yet everyone knows they're the same company. Besides, if we merge the brands, we alienate the VillageCar customer base. It's growing every day, and we don't want to lose those people. Their loyalty is fanatical. They'll revolt, and VillageCar's employees might join them. They don't call themselves 'villagers' for nothing. "

"'Villagers'—hah," Henry said. "Maybe that's what VillageCar's marketers call them, but I doubt customers call themselves that. This study shows that the emotional connection is a sham. VillageCar's not about community. It's about finding the most convenient, economical way of getting from point A to point B."

"If that's true, why are our customer bases so different?" Tony asked. "Why is everyone in the world talking about the share economy? Why is that market ballooning?"

"If we just gobble the new company up, we won't innovate on our existing model."

"Nice Wheels"

Henry had already ordered by the time his son Kyle showed up at Jasper's restaurant.

"Sorry I'm late," Kyle said. "My marketing professor wouldn't stop talking." Kyle was studying business at the University of Houston. He and Henry tried to meet for lunch once a week. This was their favorite spot, because it had outside tables and amazing burgers.

Henry asked Kyle if he was liking the class. "Yeah, it's interesting stuff—how to make people want things they shouldn't," Kyle replied.

Henry laughed. "Is that what you're taking away from it?"

"More or less. Hey, can I get a ride back to campus after this?" Kyle asked.

"Sure—if you're OK going in that," Henry said, pointing to the Audi A3 parked on the street in front of them.

"Nice wheels," his son said. "Did Mom really let you buy that?"

"No way. I'm renting it. Or accessing it—I'm not sure what to call it. It's from this company we just acquired," Henry said.

"You told me about that last time. VillageCar, right? I've seen a few of those on campus."

Henry explained that he was on the hook to decide about the integration. "Everyone's talking about how your generation is different, how sharing is the wave of the future. But it seems like just a fad to me."

"Well, I'm not sure how to integrate companies. But I do know something about my generation, and we're definitely not like you," Kyle said. Henry rolled his eyes at the familiar refrain. "I'm not being a pain, Dad. I'm trying to help. Listen, I'm not into buying things. I just want to use them when I need them. I remember you told me how proud you were when you and Mom bought your first car—that Subaru—right after you got married. You remember everything about it—the smell, the salesman's name, where you drove first. But I don't really care about stuff like that. I don't want to own lots of things. You've got a wall of CDs; I have this," he said, holding up his iPhone.

Henry listened intently. Kyle had a point. If Beacon took its typical approach, it risked losing a whole generation of consumers like Kyle.

"Owning weighs you down," Kyle continued. "Forces you to commit. Look, today you have an Audi. Tomorrow you can have a van and go to Home Depot. You can try different things out. *Not* owning is liberating."

Henry watched his son take a bite of his burger. He was amazed that his kid—he still thought of him as a little boy—was starting to sway him.

"It's a marketer's dream, isn't it?" Henry said grudgingly. "Telling customers that your product lets them change their identity by the hour." It was an appealing prospect when he looked at it from this angle. Going out to customers with a message like that could transform the problems that had been plaguing rentals for years. But he knew his decision couldn't be all about marketing. He had to consider efficiencies, too.

"So help me sound smart in my marketing class," Kyle said. "What are you going to tell the CEO?"

What should Henry recommend for the VillageCar integration?

See commentaries on the next page.