

## Australian Car Rental Industry Study

### Occasional Paper

The car rental industry in Australia has experienced strong growth in turnover during the past decade and a correspondingly high degree of price and service competition. Industry turnover has increased from \$25 million in 1975 to in excess of \$200 million in 1986, with the four national operators accounting for an estimated 80 to 85 per cent of industry turnover. The study indicates that greater operator access to Commonwealth airports since 1979 has been beneficial for consumers, operators and government airport concession revenue, alike.

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# **Australian Car Rental Industry Study**

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## FOREWORD

The car rental industry in Australia has experienced strong growth in turnover during the past decade and a correspondingly high degree of price and service competition. Industry turnover has increased from \$25 million in 1975 to in excess of \$200 million in 1986, with the four national operators accounting for an estimated 80 to 85 per cent of industry turnover. The study indicates that greater operator access to Commonwealth airports since 1979 has been beneficial for consumers, operators and government airport concession revenue, alike.

This Occasional Paper is seen as providing a contribution to improving the level of understanding of the industry as it relates to government and to related industries such as tourism. The study describes and analyses the structure, development and performance of the car rental industry. Emphasis is placed on the impact of Commonwealth Government policies regarding Commonwealth airport access and competition within the industry. Attention is also given to a range of emerging issues which are likely to affect the economic outlook of the industry.

The preparation of this Occasional Paper was greatly assisted by the provision of statistical information from the Department of Transport and Communications' Airport Management Branch. The Bureau would also like to acknowledge the considerable assistance provided by operators in the conduct of this study. In particular, valuable statistical information and comments were provided by representatives of Avis Australia, Budget Transport Industries, Hertz Australia, National Car Rental and Thrifty Car Rental.

The research for this Occasional Paper was undertaken by Mr C. D. Cronin and Mr M. K. Shiel, with initial assistance from Mr D. Wellfare.

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## CONTENTS

	Page
FOREWORD	iii
CHAPTER 1 INTRODUCTION	1
Industry description	2
Historical development	3
Outline	4
CHAPTER 2 INDUSTRY SECTORS	7
Airport sector	7
Non-airport sectors	13
Regional sector	15
CHAPTER 3 INDUSTRY DESCRIPTION	17
Size	18
Rates	20
Usage	26
CHAPTER 4 COMPETITIVE PARAMETERS	31
Government involvement	31
Economies of scale and scope	34
Capital requirements	36
Modal relationships	38
Pricing practices	39
CHAPTER 5 INDUSTRY ISSUES	47
Commonwealth airport access	47
Airport turnover shares	55
Growth, uncertainty and integration	57
Cost and price structures	59
Safety and compulsory third party insurance	60
CHAPTER 6 CONCLUDING REMARKS	63
Public policy perspectives	64

APPENDIX I	HISTORICAL DEVELOPMENTS	Page 67
APPENDIX II	RELEVANT SECTIONS OF THE AIRPORTS (BUSINESS CONCESSIONS) ACT 1959-1973	69
APPENDIX III	THE REGIONAL SECTOR - A CASE STUDY OF TASMANIA	73
APPENDIX IV	CAR RENTAL RATES: TASMANIA, 1965 TO 1986	83
APPENDIX V	COMMONWEALTH AIRPORT CONCESSIONS, 1979 TO 1984	93
REFERENCES		97
ABBREVIATIONS		103

## TABLES

	Page
2.1 Car rental turnover at Commonwealth airports, 1984-85 to 1986-87	8
2.2 Commonwealth airport car rental concessions, 1984-85 to 1986-87	10
2.3 Car rental turnover shares: Commonwealth airports, 1978 and 1980-81 to 1986-87	12
2.4 Car rental turnover shares: Commonwealth airports, States and Territories, 1978 and 1986-87	14
3.1 Estimated number of car rental operators, 1975 and 1986	19
3.2 Estimated number of car rental operator service outlets, 1975 and 1986	19
3.3 Large vehicle standard daily rental rates: national operators, nominal and constant (1979) prices, 1979 to 1986	24
3.4 Bayswater Hire Car daily rental rates: nominal and constant (1979 prices), 1981-82 to 1986-87	25
3.5 Rental vehicle usage: international visitors, various years	30
3.6 Average expenditure per visitor: domestic transport, 1985	30
4.1 Examples of general rental discounts offered by national operators, November 1986	41
4.2 Leisure rental rates offered by national operators, November 1986	44
	vii

	Page
5.1 Car rental turnover and concession fee payments at Commonwealth airports, 1986-87	52
5.2 Commonwealth airport concession revenue, 1975-76 to 1986-87	53
5.3 Compulsory third party insurance premiums, 1986	61
III.1 Car rental turnover shares: Commonwealth airports, Tasmania, 1984-85 to 1986-87	78
III.2 Adult visitors to Tasmania: main method of transport, 1978, 1981 and 1984	79
III.3 Interstate air passenger arrivals: Tasmania, 1979 to 1986	79
IV.1 Car rental rates: Tasmania, 1965 to 1978	84
IV.2 Car rental rates: Tasmania, 1979 to 1986	89
V.1 Commonwealth airport concessions, 1979 to 1984	94



## FIGURES

	Page
2.1 Monthly car rental turnover at Commonwealth airports, July 1984 to June 1987	11
5.1 Car rental turnover shares: Commonwealth airports, 1978, 1980-81 to 1986-87	56
III.1 Public vehicle licences issued: hire and drive, Tasmania, January 1981 to June 1987	75
III.2 Index of Commonwealth airport car rental turnover (constant July 1984 prices) and interstate air passenger arrivals: Tasmania, July 1984 to March 1987	81

## CHAPTER 1 INTRODUCTION

Major changes have taken place in the Australian car rental industry since the late 1970s making it one of the more innovative and competitive in the transport sector. The competitive nature of the industry has resulted in the real cost of a car rental decreasing over the past decade. In terms of the long distance passenger transport sector with which the car rental industry may be compared, the average annual growth in car rental usage was second only to intercapital coaches between 1977-78 and 1983-84.

In spite of this growth, little information on the industry has been published and no comprehensive analysis has been undertaken. The overall structure of the car rental industry is extensively affected by the actions of the Commonwealth Government in relation to access and operating conditions at Commonwealth airports. The car rental concession revenue yield to the Commonwealth Government in 1986-87 totalled \$7.7 million.

A new Commonwealth airport concession arrangement for car rental operators is scheduled to begin in early 1988. In light of this, and the increasing significance of this industry in terms of transport and tourism, the Bureau of Transport Economics (BTE), as part of its on-going research effort into major passenger transport growth sectors, has undertaken a review of this industry. The objectives of the Bureau's study of the Australian car rental industry have been to:

- . provide an overview of the development, structure and organisation of the industry and its major sectors;
- . assess the impact of control of access to Commonwealth airports by the Commonwealth Government, on the structure and behaviour of industry participants; and
- . appraise possible future directions for change to existing Commonwealth airport arrangements, with regard to a range of efficiency, equity, financial and administrative goals.

## INDUSTRY DESCRIPTION

The car rental industry is defined as a group of firms letting for hire self-drive vehicles. These firms are closely related in the competitive process by reasons of high substitutability of their products, and can be distinguished from other transport suppliers by a gap in the range of substitute products (Boulding 1955). Major rental operators offer a wide choice of vehicles, including trucks and mini-buses. This study primarily concentrates on passenger vehicles, the largest single component of the total fleet and, to a lesser extent, on four wheel drives, motorhomes and campervans.

Under the above industry definition, it is conservatively estimated that in 1986 the industry comprised some 500 operators, functioning through over 1000 service outlets and a combined fleet of 25 000 vehicles. The total value of the industry's capital stock is estimated to exceed \$400 million. National operators<sup>1</sup> (inclusive of franchises) account for approximately 80 to 85 per cent of industry turnover, which was estimated at between \$200 million and \$230 million in 1986.<sup>2</sup>

Car rental at airports represents the major sector for the national operators, comprising just under one-half of their combined turnover. Historically, it should be noted that there is an increasing trend away from the traditional business purpose rental to the non-business rental. Relatively higher growth in other rental sectors has resulted in the airport sector's dominance being progressively eroded since the 1970s.

The tourist and leisure industries have experienced a major and sustained growth in recent years, particularly through an influx of international visitors. Increasing use of rental vehicles by international visitors and greater acceptance of rental vehicles as a replacement for private car use on trips, have contributed, in part, to the industry's sustained growth. Car rental operators have been adept at catering for and developing tourist and leisure purpose rentals. In addition, the industry's link with fly-drive and fly-drive and accomodation packages has enabled it to make a significant contribution to the tourist industry.

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1. National operators presently comprise Avis, Budget, Hertz and Thrifty. These operators maintain a network of outlets in all States, servicing capital cities and major provincial centres.
  2. The dynamics of entry and exit of second-tier operators (serving only a limited geographic area) in the industry, makes it difficult to quantify this level's turnover accurately.

## HISTORICAL DEVELOPMENT

An examination of the historical background reveals an industry that has evolved through a number of structural stages (see Appendix I). This has been in response to both institutional changes and attempts by operators to encourage greater car rental usage. The business of renting vehicles began in the inter-war period, although the Australian car rental industry's present character had its origins with the establishment of Avis Australia in 1955.

Airports emerged as the dominant and most lucrative sector for car rentals, accounting for nearly three-quarters of national operator business by the mid-1970s. Avis' ability to service the required number of airports in the mid-1960s secured for it the right of sole car rental operator at Commonwealth Government airports until 1979 (*Trade Practices Commission v. Ansett Transport Industries (Operations) Pty Ltd and others*, (1978) 32 FLR 305 (the TPC Case)).

Other rental operators also began to establish themselves, catering for specific geographic locations. Both Hertz (established in 1964) and Kay Rent A Car (established in the mid-1950s) aimed initially to develop the rental business in downtown Sydney and Melbourne (Rydges 1978). These firms merged in 1977 and began trading as Hertz. While Avis operated both downtown and at airports, its then owner sought to compete more extensively in the inner cities and established Budget Rent A Car in 1965.

Budget initially concentrated on the 'walk-in, drive-out' discount car rentals, while Avis concerned itself with business-orientated demand based on service, quality and vehicle range. In 1974, Budget Rent A Car was acquired by the Australian Guarantee Corporation (55 per cent) and Mr R. G. Ansett. Budget Rent A Car System Pty Ltd is presently operated by Budget Transport Industries (Australian Guarantee Corporation disposed of its holdings in 1983 to Messrs Ansett and Hamley). Budget's current principals also have ownership of the fourth largest operator, Thrifty Car Rental.

Mayne Nickless and Australian Airlines (then trading as Trans Australian Airlines) bought a controlling interest in Hertz in 1978. Subsequently, in 1980, full ownership of Hertz was acquired by a joint subsidiary company owned by both firms. In late 1986, Mayne Nickless and Australian Airlines sold their holdings to the United States car rental operator, Hertz International. Similarly, Avis Australia's ownership has changed a number of times over the past decade, with the United States company Avis International assuming full control of the operations in 1986.

The composition and structure of the car rental industry has also changed as a result of the granting of increased access to Commonwealth airports since 1979. The ending of Avis' right as sole operator at Commonwealth airports and the admission of Hertz and Budget with national operator rights, has been a catalyst for increased service and price competition within the industry.

Airports provided around two-thirds of national operator turnover in the late 1970s, which meant that Avis' loss in 1979 of trading rights at a number of major airports, had a significant impact on the character of the industry. Consequently, Avis found it difficult to hold its dominant share of airport turnover, given its consequent inability to offer a complete on-airport network for car rentals. Hertz' position as a national operator at airports was achieved at considerable financial cost. Compared to the other successful national operator, Budget, the Hertz' payment for Commonwealth airport access rights adversely affected its medium-term financial performance. The main beneficiary of the post-1979 airport concessional arrangements was Budget, which significantly expanded its share of Commonwealth airport turnover from an estimated 15 per cent in 1978 to in excess of 50 per cent in 1982-83.

Entry liberalisation to the airport sector in the late 1970s complemented broader changes that were taking place in the car rental industry. Traditionally, there was (and, to a lesser extent, still is) a close connection between car rental and the business person at either the airport or downtown. However, operators have increasingly widened their turnover base through rentals associated with the expanding tourist and leisure areas. The fly-drive concept has been developed by the airlines and car rental operators, most notably for tourists to Tasmania and northern Australia. Indeed, State travel bureaux, airlines and car rental operators have heavily promoted fly-drive packages to the extent that they are now major components of car rentals in a location such as Tasmania.

## OUTLINE

The format of this Paper is organised along the following lines. The various sectors of the car rental industry are examined in Chapter 2. An overall description of the industry in terms of size, operators, rental rates and rental demand is then detailed in Chapter 3.

Chapter 4 provides an analysis of the competitive framework on the basis of various sector entry requirements, modal relationships and the pricing practices of operators. A number of industry and public policy issues presently confronting the industry are discussed in

Chapter 5. Chapter 6 provides a descriptive overview of the industry and highlights a number of areas for future consideration in Commonwealth airport concession arrangements.

## CHAPTER 2 INDUSTRY SECTORS

For the purposes of this study, the car rental industry has been divided into a number of sectors on the basis of geographic coverage (national and local) and location (airport, downtown, suburban, country and remote and regional). The national market encompasses operators with an extensive spread of outlets (either corporate or franchise), allowing one-way rentals between major centres, offering credit facilities, network bookings, a large range of rates, extensive choice of late model vehicles and 24-hour emergency facilities.

Second-tier operators, which comprise the largest number of industry participants, serve only specific locations or operate in limited geographic regions. These operators have concentrated on servicing different aspects of consumer demand, primarily relating to price/quality trade-offs, usually with a limited number of vehicle types and often functioning as part of another business. As such, they tend to compete in varying degrees with national operators in the suburban and downtown, country and remote, and regional sectors. On the Gold Coast in 1986, for example, there were around 60 second-tier operators offering an extensive range of early and late model vehicles for leisure-oriented purposes, competing with the four national operators.

### AIRPORT SECTOR

The industry's structural characteristics changed substantially in 1979 when access to Commonwealth-controlled airports was broadened to allow the entry of additional operators. The effect of this has been to facilitate an increased degree of competition amongst operators, which has given rise to overall falls in the real price of rentals.

The airport sector represents an important component of the total car rental industry and accounts for around one-half of national operators' turnover. This sector is not only distinguished in a geographic sense from other market sectors, but also in regard to

TABLE 2.1 CAR RENTAL TURNOVER AT COMMONWEALTH AIRPORTS, 1984-85 TO 1986-87

Airports	1984-85		1985-86		1986-87	
	(\$m)	(per cent)	(\$m)	(per cent)	(\$m)	(per cent)
Capital city airports	44.6	76	56.2	78	71.3	79
Other major airports <sup>a</sup>	8.9	15	10.2	14	12.7	14
Minor airports	5.4	9	5.6	8	6.6	7
Total	58.9	100	72.0	100	90.6	100

a. Townsville, Coolangatta and Launceston.

Source Derived from Department of Transport and Communications (1987).

structural differences (see Chapter 5). Second-tier operators currently conduct a negligible amount of business at Commonwealth airports. The extent of second-tier operator presence on these airports is constrained by the current concessional arrangements authorised under the *Airports (Business Concessions) Act 1959* (see Appendix II).

Variations exist between national operators in the extent of their coverage of Commonwealth and locally-owned airports. Out of the 47 Commonwealth airports,<sup>1</sup> Budget operates at 31, with Avis, Hertz and Thrifty operating at 26, 23 and 18, respectively. The three largest national operators conduct business at many of the locally-owned major provincial airports, while Thrifty confines itself to six such airports.

#### Commonwealth airports

In 1986-87, turnover from car rentals at Commonwealth airports totalled \$90.6 million (see Table 2.1), with New South Wales and the Australian Capital Territory accounting for 26 per cent, Queensland 26 per cent, Victoria 18 per cent, Tasmania 10 per cent, Western Australia 9 per cent, South Australia 7 per cent and the Northern Territory 4 per cent.

1. At the beginning of the 1984-85 to 1986-87 concession agreement, there were 48 Commonwealth airports. In August 1985, Wynyard came under local ownership.



The proportion of turnover obtained from airports varies, as indicated in Table 2.1. The major features of the table are that in 1986-87:

- . ninety-three per cent of car rental gross turnover was derived from only 11 Commonwealth airports; and
- . capital city airports accounted for 79 per cent of gross turnover, an increase of 1 per cent on 1985-86.

The value of business conducted at Commonwealth airports appears sensitive to changes in the general state of the economy. Gross turnover was \$33.9 million in 1980-81, increased to \$38.4 million the following year, but decreased to \$37.1 million during the 1982-83 recession. Growth was restored in 1983-84 with a turnover of \$42.9 million, a 16 per cent increase over the previous year.

Since July 1984, operators at Commonwealth airports have been charged an *ad valorem* franchise fee of 8.5 per cent on gross turnover.<sup>2</sup> The concession also comprises an administratively determined annual fixed fee that is only effective should payments to the Department of Transport and Communications<sup>3</sup>, based on 8.5 per cent of an operator's gross turnover, fall below a stipulated minimum fee.

Table 2.2 distinguishes between Commonwealth airports at which a national operator may operate if so desired, and those airports which must be serviced by the operator. The current agreement, intended to operate until the Federal Airports Corporation takes control of airport concession arrangements, was renegotiated along similar lines as the 1984-85 to 1986-87 agreement.

Between 1980-81 and 1986-87, the average annual growth rate in car rental gross turnover at Commonwealth airports was 18 per cent. Within this aggregate growth rate, the variability of gross airport turnover by month, for the period July 1984 to June 1987, is presented in Figure 2.1. While the underlying growth in turnover is evident, fluctuations about the general trend are largely confined to the summer period, with more constant growth during winter months. Seasonal variations at this aggregate level are not as pronounced as those in particular regional locations which rely heavily on tourism, for example, Tasmania (see Appendix III).

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2. Operators pay separately for on-airport facilities such as car preparation and maintenance areas, as well as for the use of Ansett and Australian Airlines-owned terminal space.
  3. In July 1987 the Department of Aviation was merged with the Department of Transport and Communications.

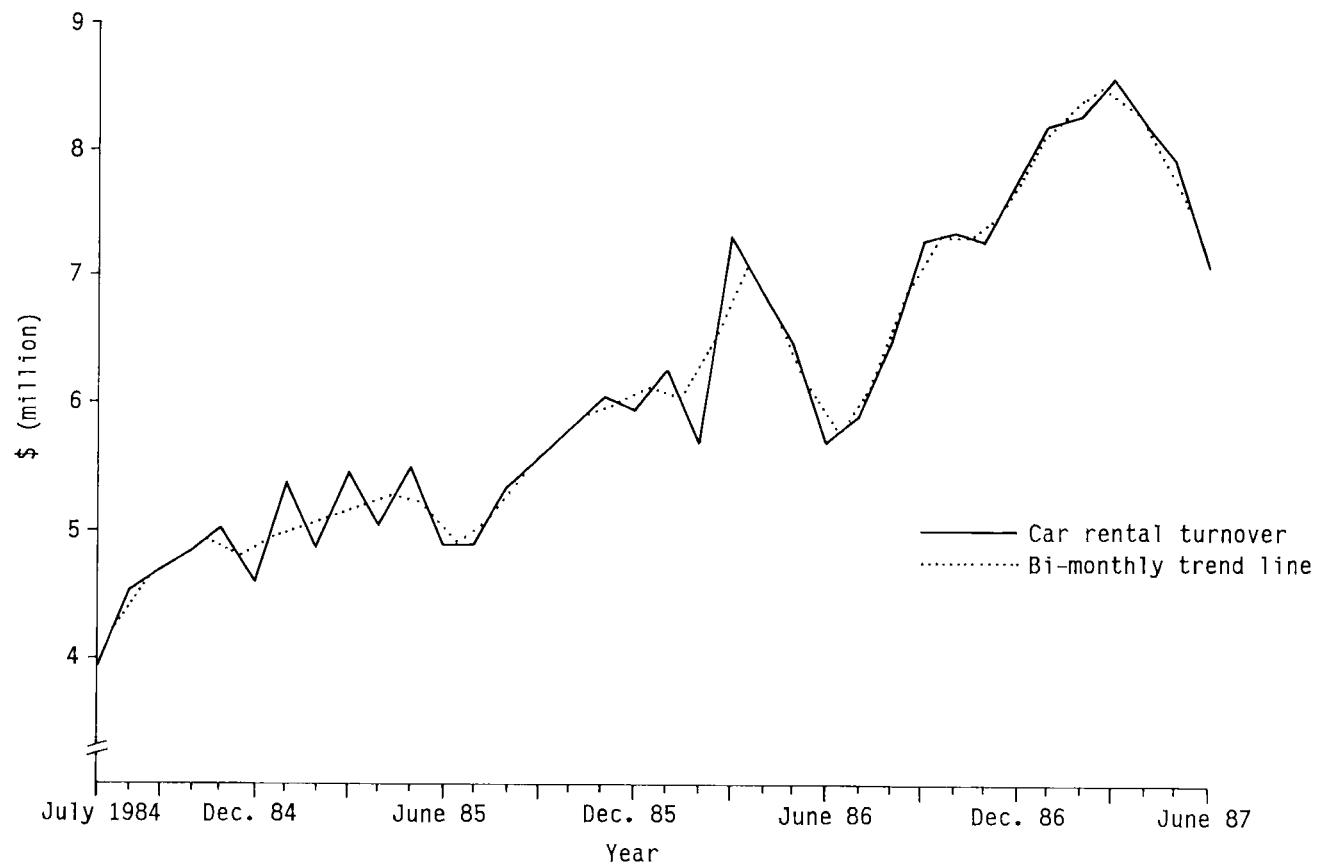
TABLE 2.2 COMMONWEALTH AIRPORT CAR RENTAL CONCESSIONS, 1984-85 TO 1986-87

<i>State/ Territory</i>	<i>Operator servicing mandatory</i>	<i>Operator servicing optional</i>
New South Wales	Sydney	Bankstown, Camden, Coffs Harbour, Wagga Wagga, Williamtown
Victoria	Melbourne	Essendon, Moorabbin
Queensland	Brisbane, Townsville, Coolangatta	Archerfield, Charleville, Cloncurry, Cooktown, Longreach, Mackay, Mount Isa, Oakey, Rockhampton
South Australia	Adelaide	Ceduna, Mt Gambier, Parafield, Port Lincoln, Whyalla
Western Australia	Perth	Albany, Broome, Carnarvon, Derby, Jandakot, Kalgoorlie, Learmonth, Wittenoom, Wyndham
Tasmania	Hobart, Launceston	Flinders Island, King Island, Wynyard (until August 1985)
Australian Capital Territory	Canberra	
Northern Territory and other	Darwin	Alice Springs, Tindal, Tennant Creek, Norfolk Island

Source Department of Aviation (1983).

*Operator turnover shares*

The relative positions of national operators within the airport sector have changed significantly over the past decade, reflecting, in part,



Source Department of Transport and Communications (1987).

Figure 2.1 Monthly car rental turnover at Commonwealth airports, July 1984 to June 1987

changes in Commonwealth Government franchise arrangements at airports, increased competition and the growth of rentals for leisure/tourism purposes. The only validated data on sector shares within the car rental industry relate to on-airport operations, as operators with airport locations are required to report gross turnover to the Department of Transport and Communications. With regard to the non-airport sectors, figures should be regarded as approximations only.

Table 2.3 details the airport turnover share of the national operators for the 1978 and 1980-81 to 1986-87 periods. Expansion of operator access to Commonwealth airports in 1979, and further liberalisation under the 1984 airport concession arrangements, have had a significant impact on the relative turnover share positions of the four national operators. Since 1978, Avis' airport turnover share has declined significantly. Budget's share increased from about 15 per cent to 52.8 per cent in 1982-83, and has since declined to 38.9 per cent in 1986-87. Hertz increased its turnover share from 15 to 28.6 per cent in 1980-81, with a decrease to 24.1 per cent in 1986-87. Thrifty's turnover share position has increased from less than 1 per cent in 1980-81 to 8.3 per cent in 1986-87.

TABLE 2.3 CAR RENTAL TURNOVER SHARES: COMMONWEALTH AIRPORTS, 1978 AND 1980-81 TO 1986-87  
(per cent)

Year	Avis	Budget	Hertz	Thrifty	Others <sup>a</sup>
1978 <sup>b</sup>	65.0	15.0	15.0	c	5.0
1980-81	29.4	41.3	28.6	0.7	na
1981-82	25.0	49.1	24.7	1.2	na
1982-83	23.7	52.8	21.7	1.8	na
1983-84	20.7	49.0	27.6	c	2.7
1984-85	23.8	39.8	26.4	9.0	0.3
1985-86	25.3	40.9	25.0	8.4	0.4
1986-87	28.3	38.9	24.1	8.3	0.4

a. Includes Territory Rent A Car (Darwin).

b. Estimate.

c. Share included in Others.

na Not available.

Sources BTCE estimates and industry sources. Department of Transport and Communications (1987).

In 1978, Commonwealth airport turnover in all States and Territories, was dominated by Avis, with an estimated share of 65 per cent. Currently, Budget dominates airport gross turnover figures in all States except Tasmania and the Australian Capital Territory, where leadership is held by Hertz (see Table 2.4). In Tasmania, Hertz services are provided under a franchise arrangement with local operator, AutoRent. In the ACT, Hertz' dominance can largely be attributed to Hertz' corporate account with the former Department of Local Government and Administrative Services.

### **Locally-owned airports**

Apart from Commonwealth airports, locally-owned airport franchise arrangements with car rental operators vary widely in method and level of payments (see Chapter 5). The major locally-owned airports, in terms of turnover, are Cairns and Devonport, with port authorities in both cases maintaining their own concession arrangements with operators. The Cairns authority uses a charge composed of two elements: a business enterprise permit fee of \$20 000 per annum and a licence fee based on 5 per cent of the time and distance charge for vehicle rental at the airport (this equates to around 6 per cent of turnover). Devonport operates a variation of this two element charge, with a rental-desk fee of \$15 000 per annum, plus an additional \$280 for each close proximity car rental parking spot.

### **NON-AIRPORT SECTORS**

The turnover in the non-airport sectors is estimated to be in the region of \$110 million to \$140 million, with 503 operators engaged in servicing these sectors in 1986. The primary purposes of rentals in the non-airport sectors tend to be leisure and tourist activities. It is in these sectors that second-tier operators compete most extensively with national operators, given the price-sensitive nature of demand.

#### **Downtown and suburban sectors**

National operators can generally trace their origins to a single location in a city. Within the downtown sector, discrete geographical areas have become hubs for rental outlets of both national and second-tier operators.

Indications are that second-tier downtown operators tend to concentrate on offering medium to small vehicles for leisure/tourist destinations usually within a day's drive from the city. For example, National Car Rental with its three corporate locations in Sydney, Melbourne and Brisbane observed that two-thirds of its rentals between

14 TABLE 2.4 CAR RENTAL TURNOVER SHARES: COMMONWEALTH AIRPORTS, STATES AND TERRITORIES, 1978 AND 1986-87  
(per cent)

	<i>Avis</i>		<i>Budget</i>		<i>Hertz</i>		<i>Thrifty</i>		<i>Others</i>	
	1978	1986-87	1978	1986-87	1978	1986-87	1978	1986-87	1978	1986-87
New South Wales	65.0	29.8	15.0	38.6	15.0	22.3	a	9.3	5.0	..
Victoria	60.0	28.3	10.0	41.7	20.0	22.1	a	7.9	10.0	..
Queensland	65.0	30.9	10.0	39.6	20.0	20.1	a	9.4	5.0	..
South Australia	60.0	25.5	15.0	41.6	20.0	24.9	a	8.0	5.0	..
Western Australia	75.0	25.9	10.0	46.9	10.0	19.9	a	7.3	5.0	..
Tasmania	60.0	28.2	20.0	28.7	15.0	37.0	a	6.2	5.0	..
Northern Territory	75.0	21.2	5.0	38.0	5.0	22.9	a	8.6	15.0	9.3
Australian Capital Territory	90.0	19.9	5.0	28.2	5.0	46.8	a	5.1	na	..
Australia	65.0	28.3	15.0	38.9	15.0	24.1	a	8.3	5.0	0.4

a. Included in Others for 1978.

na Not available.

.. Not applicable.

Sources BTCE estimates and industry sources. Derived from Department of Transport and Communications (1987).

January and June 1986 could be classed as leisure rentals (National Car Rental 1986). The second-tier operator emphasis on leisure purpose rentals, generates a weekly cycle of rental demand dissimilar to that of the national operators. Rental demand exhibits a peak at the weekend for second-tier operators, while Tuesday to Thursday is generally the peak rental period for the business travel orientated national operators.

The number of national operator suburban locations has significantly increased since the late 1970s. Rentals by both national and second-tier operators from suburban locations are mainly for non-business purposes. To cater for this demand, there has been a proliferation of operators offering 'wrecks', 'beetles', 'minis', 'utes' and recreational vehicles for rental.

### **Country and remote sectors**

As part of their overall network, national operators also feature in non-metropolitan areas, with different rate schedules applying in country and remote areas. All national operators define Northern Territory rental locations as remote as well as towns such as Mt Isa, Whyalla, Broken Hill and Mildura. The significance of these categories in relation to rental rates at particular outlets is explained in Chapter 3.

Both national and second-tier operators in these sectors frequently conduct multi-product businesses, and offer vehicles of varying standards. In the case of national operators, outlets are usually franchised, which is a trend that has been increasing over recent years. Pricing on a time plus distance basis is still in general use, and a surcharge added to standard metropolitan rates is applicable. Only limited scope exists for one-way rentals, especially amongst second-tier operators.

### **REGIONAL SECTOR**

Particular geographical regions display characteristics, notably the intensity of rental vehicle use for leisure, that distinguish them as a separate sector of the car rental industry. Major areas of the regional sector are to be found in coastal Queensland and Tasmania (see Appendix III). As such, the sector comprises parts of the airport and non-airport sectors, with the airport sector more important in Tasmania than the Queensland Gold Coast, where downtown and suburban rentals are more significant.

The car rental demands associated with leisure and tourist trips constitute a significant measure of the total travel task in a number of regions. Tasmania and Queensland collectively had 9044 hire and drive vehicles licensed in 1985-86 (the great majority being sedans, although trucks, buses and motor bikes were also included).

The importance of rental vehicles in catering for leisure/tourist demands, particularly fly-drive packages, which, in turn, have encouraged the use of rental vehicles by interstate and international visitors, may be gauged by the ratio of the number of permanent State residents per rental vehicle. Tasmania has the lowest figure (that is, the highest market penetration) with 153 persons per rental vehicle, and Queensland 421 persons per rental vehicle, against an Australian average of 600 to 700 persons per rental vehicle.



### CHAPTER 3 INDUSTRY DESCRIPTION

Developments in the industry over recent years indicate that it has entered a phase of maturity characterised by a decline in the growth of turnover and usage as compared to that which occurred in the late 1970s and early 1980s. In order to expand the overall usage and penetration of car rentals, the current focus of operator activity has been increasingly directed towards offering greater diversity and choice. This has been particularly important in attempts to capture the general growth in tourist-related demand.

The introduction by Budget of the flat rate pricing system in 1979 that replaced the 'standard rate' system, intensified price competition amongst car rental operators. This has resulted in a reduction in the real price of vehicle rentals, such that, it was cheaper to rent a vehicle in December 1986 than in the early 1970s. The liberalised entry conditions at major airports and the introduction of flat rate rental pricing was accompanied by increased pricing flexibility. This involved widespread discounts on the operators' standard rates, depending on the location, length and period of the rental.

Economic, institutional, social and demographic changes over the past decade also appear to have had a positive impact on the rate of growth of the car rental industry. Indications are that domestic travel increased by 20 per cent between 1978-79 and 1983-84, while the population only increased by approximately 6.4 per cent (Department of Sport, Recreation and Tourism 1985). The propensity of Australians to travel appears likely to grow, given the changes occurring in the age structure, population distribution, and general developments within the economy. Also, the marked increase in international tourists, notably New Zealanders and North Americans, holidaying in Australia has contributed strongly to demand. On average, international tourists spend around one-sixth of their transport expenditure in Australia on car rentals, and account for up to one-quarter of car rental turnover.

## SIZE

The industry increased from 60 to 100 rental companies in the period 1965 to 1975, resulting in an increase in vehicle fleet size from 1500 to 6000, and in turnover, from \$10 million to \$25 million per annum.

There are presently over 500 operators engaged in the Australian car rental industry. These operators have in excess of 1000 service outlets in all States and Territories. On average, they operate around 25 000 vehicles,<sup>1</sup> of which an estimated three-quarters belong to the four national operators. These operators retain vehicles for an average of 10 to 12 months. Total national and second-tier operator turnover is estimated to be in the region of \$200 million to \$230 million per annum.

The continued growth in the number of operators entering the industry in recent years, has occurred at the second-tier rather than at the national operator level (see Table 3.1). There was, approximately, a 220 per cent increase in the estimated number of second-tier operators over the decade ending 1986 (increasing from 153 to 499). The largest growth in rental operators has taken place in Queensland, with tourist areas such as Cairns and the Gold Coast displaying the greatest increase. In Cairns, for example, the increase was from 4 to 30 operators in the period.

The growth in the number of service outlets (Table 3.2) has been similar to growth in operator numbers. National operators have doubled their number of outlets, while second-tier outlets have only grown in line with operator numbers. In 1986, an estimated 2500 persons were employed by the industry either in a full or part-time capacity, of these, three-quarters were employed by the national operators or their franchisees.<sup>2</sup>

In the period 1965 to 1985, the national operator fleet increased by over twelve-fold. In the decade beginning 1965, over two-thirds of the national operator car rental fleet was controlled by Avis. Budget operated a minimal fleet, while Kay, Hertz and Letz controlled the remaining one-third. Major changes occurred in the relative size of operator fleets between 1975 and 1980, with Avis holding slightly less

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1. Over the course of a year, the actual number of vehicles in service with operators tends to vary in response to seasonal factors.
  2. Precise estimates of employment are difficult, given that national and second-tier operators commonly function as a multi-product business.

TABLE 3.1 ESTIMATED NUMBER OF CAR RENTAL OPERATORS, 1975 AND 1986

State	National operators		Second-tier operators	
	1975	1986	1975	1986
New South Wales <sup>a</sup>	5	4	44	115
Victoria	5	4	15	73
Queensland	5	4	27	147
South Australia	5	4	10	23
Western Australia <sup>b,c</sup>	5	4	37	106
Tasmania	5	4	20	35
Australia	5	4	153	499

a. Includes the Australian Capital Territory.

b. Does not include Western Australia country districts for 1986.

c. Includes Northern Territory.

*Note* For 1975, Avis, Budget, Hertz, Kay and Letz are classed as national operators. In 1986, national operators comprised Avis, Budget, Hertz (which had merged with Kay in 1977) and Thrifty.

*Source* BTCE estimates.

TABLE 3.2 ESTIMATED NUMBER OF CAR RENTAL OPERATOR SERVICE OUTLETS, 1975 AND 1986

State	National operators		Second-tier operators		Total	
	1975	1986	1975	1986	1975	1986
New South Wales <sup>a</sup>	69	172	47	141	116	313
Victoria	41	99	15	96	56	195
Queensland	49	102	32	160	81	262
South Australia	14	36	11	23	25	59
Western Australia <sup>b,c</sup>	42	33	39	109	81	142
Tasmania	17	21	33	41	50	62
Australia	232	463	177	570	409	1 033

a. Includes Australian Capital Territory.

b. Does not include Western Australia country districts for 1986.

c. Includes Northern Territory.

*Source* BTCE estimates.

than one-third of the fleet, Budget just on one-third, Hertz one-fifth and Thrifty one-tenth. Budget continued to expand its share of the national operator fleet, such that by 1985 it held around one-half of the fleet, Avis one-fifth, Hertz one-fifth and Thrifty one-tenth.

In a number of respects the above outline is similar to the overseas experience, particularly to that which occurred in the United States. Since 1950, when its total fleet was 17 000 cars, the United States industry has expanded to over 600 000 cars, with a turnover of US\$4500 million. The size of the United States industry is over 25 times that of Australia's. Similarly, the size of car rental operators in the United States is also much greater than it is in Australia. For example, in 1985 Hertz operated over 180 000 vehicles, Avis 110 000 vehicles, National 95 000 vehicles and Budget, the fourth largest operator, around 90 000 vehicles. In addition to the four major operators, there were eight other operators with fleets ranging in size from 14 000 to 35 000 vehicles. Several thousand operators comprised the remainder of the industry, although the great majority operated only through a single outlet and served a local area, frequently as part of a car dealership (Bredemeier 1986).

## **RATES**

Until the end of the last decade, rate setting in the car rental industry was characterised by time plus distance pricing, a system that in some measure recognised the variable cost involved with the distance travelled by a vehicle. Nevertheless, the development of an innovative and competitive market and a degree of consumer uncertainty produced by time plus distance pricing, have led to the adoption of flat rate charging.

Currently, time plus distance pricing is largely restricted to the country and remote sector. However, recent United States experience suggests that there may be a need for the reintroduction of time plus distance pricing in some limited form in other geographic sectors. In 1986, the low resale value of used rental cars with high odometer readings, led Hertz, amongst others, to provide 160 kilometres 'free' travel per day, after which a cents per kilometre rate was charged. This was confined to discretionary, that is, non-prebooked rentals that comprised 20 per cent of Hertz rentals (Vervaeke 1986).

## **Rate developments**

Throughout the period from 1959 to 1979 rentals were based primarily on a 'standard rate', comprising a daily rental rate plus a distance

charge. In the 1960s, nominal rental rates generally increased.<sup>3</sup> Throughout the early 1970s, average nominal rental rates for a small vehicle increased by up to 85 per cent, while the distance charge during the 1970 to 1974 period remained relatively constant (see Table IV.1).

The introduction of the flat rate pricing scheme in 1979 by Budget, coupled with Commonwealth airport access, had an immediate and direct effect upon Budget's share of national operator turnover. The flat rate rental scheme (previously introduced but withdrawn by both Avis and Kay) involved a daily rental rate with unlimited kilometres, and payment according to the duration of the rental. The introduction of flat rate pricing substantially reduced the cost of rental vehicles over long distances. In 1979, for example, the daily rental rate by Budget for a distance of 200 kilometres was 13 per cent below the corresponding rate for 1976, while Avis' 1979 rate was 29 per cent lower than its 1976 rate for 200 kilometres (Bureau of Industry Economics 1983).

More recently, the benefits to the consumer of the flat rate pricing system are well illustrated on the Brisbane-Cairns route for 1977 and 1986. In 1977, time and distance charges, as well as repositioning fees, varied between operators. Some offered a higher per day rate but lower distance charge, and vice versa. The number of 'free' kilometres per day also varied between operators. For a minimum rental period of three days, covering the Brisbane-Cairns route, and the use of a large vehicle (Falcons and Kingswood/Commodores), actual rental cost averaged \$250 to \$300 for the trip. In late 1986, with the three day minimum rental period applying, but flat rate pricing operating, the same trip averaged \$230 (excluding petrol and stamp duty). The actual rental component of such a trip in 1986, compared to 1977, fell by over 50 per cent in real terms (1986 prices).

Many second-tier operators still offer time plus distance rates, or offer daily rates with a limited number of 'free' kilometres. The

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3. In order to establish a consistent time series and cross sectional basis for analysing national operator rates and rental trends, standard Tasmanian rental rates have, in the main, been used. They provide the most consistent and complete records. National operator rates can and do differ by location and outlet ownership (corporate or franchised). The national operator standard rate cards for 1986 indicate that the Tasmanian rates either closely reflect, or are the same as, standard metropolitan daily rates applied by national operators.

larger second-tier operators, such as National Car Rental (operating on the east coast), Bayswater Hire Car (Perth) and Letz do, however, offer a flat rate system similar to national operators.

### **Sector rate variations**

Rental rate variations take place at two levels. National operator rates vary by location (metropolitan, country and remote), while within such sectors, the intensiveness of competitive forces and the effect of changing seasonal demand impinges upon rental rates, terms and conditions. An indication of the multiplicity of rates and conditions offered through national operator standard rate cards is outlined more fully in Chapter 4.

Variation in rental rates is most apparent through the national operator three-tiered rate structure, that is, between metropolitan country and remote area rates.<sup>4</sup> The rate tier applying at a particular outlet is determined by the operator's classification of the outlet into one of the three tiers. As a result, national operators distinguish between their listed daily metropolitan, country and remote area rates. The rates applying in country areas are presently \$5 more than the metropolitan rental rates, with 200 to 250 kilometres per day 'free' and additional distance charged at 25 cents per kilometre. In effect, country area rates can be up to 20 per cent higher than metropolitan rates.

The other rate tier exists in remote areas, with national operators offering vehicles for \$10 more than the metropolitan rental rate, 100 kilometres per day 'free' and 25 cents per additional kilometre.

### **Rate movements**

Intense price competition amongst national operators since 1979, has resulted in significant benefits to consumers. In contrast, indications from a number of the larger second-tier operators suggest that real rental rates offered by this type of operator have increased slightly over the same time period.

### **National operators**

Standard rental rates have shown an overall decline in real terms (constant 1979 prices) since 1979, although nominal rates have increased by around \$20. Using a weighted average based on Commonwealth airport operator turnover shares, real rental rates have

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4. In the large provincial centres such as Townsville and Ballarat, metropolitan daily rates apply.

fallen from \$35.30 in 1979 to \$30.30 in 1986. In terms of specific operator rates, it should be noted that Avis' large vehicle rates declined by 18 per cent over the 1979 to 1986 period, while Thrifty's 1986 rate was 27 per cent lower than Avis' 1979 level in real terms. Over the same period, average weighted nominal rates for large vehicles increased by 54 per cent.

The degree of rental rate differential between the national operators has also shown a decrease. Avis held the largest turnover share in 1979 and charged a rental rate higher than its main competitors. Table 3.3 shows that in February 1979, Avis' rate was 20 per cent higher than Budget's, 7 per cent higher than Hertz and 28 per cent higher than Thrifty's. By 1986 the rental rate spread had decreased to the extent that Budget (the largest operator), Avis and Hertz were offering the same rental rate on a large vehicle, with Thrifty 11 per cent below these three operators.

#### *Second-tier operators*

Both the large number of operators, and the ease of entry and exit from second-tier car rental operations, present difficulties in quantifying overall rate movements. Nevertheless, a brief analysis of the rate histories of a number of second-tier operators indicates that there has been a slight increase in real rental rates since the early 1980s. A typical example is that of Bayswater Hire Car illustrated in Table 3.4.

Many second-tier operators charge rates significantly below those of the national operators, as can be seen from a comparison of Tables 3.3 and 3.4. Rental rate information contained in these tables must be considered indicative only, as operator rates may fluctuate considerably over the course of a year due to intensified competition and seasonal influences. Special programs and discount initiatives are not revealed in the rental rates shown for national operators.

Within a particular geographical area, a national operator may see itself in competition with second-tier operators such as National Car Rental (six east coast outlets), Bayswater Hire Car (four outlets in Perth) and with the numerous smaller operators, notably in suburban locations. For similar vehicles to that of national operators, Bayswater Hire Car, for example, has rates which are generally one-third of those offered by the national operators as standard metropolitan rates. However, it is estimated that less than one-sixth of national operator rentals are at their standard rental rate.

TABLE 3.3 LARGE VEHICLE<sup>a</sup> STANDARD DAILY RENTAL RATES: NATIONAL OPERATORS, NOMINAL AND CONSTANT (1979) PRICES, 1979 TO 1986

(\$)

Year	Operator							
	Avis		Budget		Hertz		Thrifty	
	Nominal	Constant	Nominal	Constant	Nominal	Constant	Nominal	Constant
1979	37.50	37.50	30.00	30.00	35.00	35.00	27.00	27.00
1980	35.00	31.80	28.00	25.40	34.00	30.90	29.00	26.30
1981	41.00	34.00	37.00	30.70	41.00	34.00	29.00	24.10
1982	41.00	30.80	36.00	27.10	44.00	33.10	31.00	23.30
1983	46.00	31.00	44.00	29.70	38.00	25.60	33.00	22.80
1984	46.00	29.00	48.00	30.30	48.00	33.30	37.00	23.30
1985	48.00	29.00	48.00	29.00	49.90	30.20	46.00	27.80
1986	55.00	30.70	55.00	30.70	55.00	30.70	49.00	27.40

a. Commodores and Falcons.

Note Rates applying at February of each year. Rates may vary by location.

Sources ABS (1986a). Operator Rate Cards. Tasmanian Tourist Bureau (1986).



TABLE 3.4 BAYSWATER HIRE CAR DAILY RENTAL RATES: NOMINAL AND  
CONSTANT (1979 PRICES), 1981-82 TO 1986-87  
(\$)

Year	Vehicle					
	Small <sup>a</sup>		Medium <sup>b</sup>		Large <sup>c</sup>	
	Nominal	Constant	Nominal	Constant	Nominal	Constant
1981-82 <sup>d</sup>	10.00	7.50	11.00	8.30	13.00	9.80
1982-83	na	na	na	na	na	na
1983-84 <sup>f</sup>	13.00	8.20	14.00	8.80	16.00	10.00
1984-85 <sup>f</sup>	14.00	8.50	16.00	9.70	18.00	10.90
1985-86 <sup>f</sup>	15.00	8.40	18.00	10.00	21.00	11.70
1986-87 <sup>f,g</sup>	17.00	8.70	20.00	10.20	23.00	11.70

a. Such as a manual Ford Laser.

b. Such as an automatic Ford Telstar.

c. Such as a six cylinder automatic Ford Falcon.

d. Unlimited kilometres in the metropolitan area.

f. Unlimited kilometres for a period of one to five days.

g. Conditions: If rented only one day, \$16 surcharge, two days, \$8 surcharge. Deposit of \$100 required. Surcharge for non-metropolitan use. Rates may change over currency of the directory. Rates subject to partial high season rate from October to February.

na Not available.

Sources ABS (1986a). Bayswater Hire Car 1986-87 Rate Card (current to March 1987). Perth Yellow Pages Telephone Directories (various years).

### Collision damage waiver fee

In the event of damage to a rental vehicle, rental contracts usually specify that the renter is liable for an excess (commonly around \$2000 to \$5000, depending on the vehicle). This can generally be waived at the renter's option by payment of a collision damage waiver fee on each day's rental. Should a renter opt not to take out the fee, a substantial deposit (in Thrifty's case \$2000) is required. For persons under 25 years of age, national operators and a number of second-tier operators have made the fee compulsory, with an additional surcharge. The collision damage waiver fee is a significant addition to the rental charge. For example, national operators presently charge \$12 per day for a Falcon or a Commodore. Second-tier

operators, such as Action Rent A Car (Adelaide) typically charge \$10 per day (\$15 per day for drivers 21 to 23 years of age). On a daily basis the collision damage waiver fee decreases for weekly and monthly rentals. For example, the Hertz fee for a Ford Laser is \$12 per day, \$70 per week and \$140 per month.

Industry sources advise that in 95 per cent of rental cases the collision damage waiver fee is taken out by the renter. The Insurance Council of Australia has classed the waiver as a fee rather than as an insurance and, consequently, has not subjected it to regulation.

## **USAGE**

Estimates indicate that the trip length per rental vehicle in Australia varies between peak and off-peak seasons, and also according to rental purpose (business or non-business). The average distance travelled by a rental vehicle is estimated to be in the region of 40 000 kilometres per annum. By comparison, average annual distance travelled in Australia by cars and station wagons in 1985 was 15 700 kilometres (ABS 1986b).

Commodores and Falcons dominate national operator fleets, however, a wide range extending from economy to luxury class vehicles is also offered. Second-tier operators often specialise to a greater extent in the small to medium, and earlier model vehicles. The relative significance of different vehicle classes varies somewhat between operators, with Avis, Budget and Hertz more extensively represented in the luxury/prestige end of the market than Thrifty. Overall, the mainstay of the car rental industry is the rental of Commodores and Falcons, which comprise approximately one-half of the national operator fleet and enjoy higher utilisation rates than vehicles in the luxury/prestige end of the market (such as Fairlanes and BMWs).

Industry sources estimate that, on average, vehicles are rented for around three days. For national operators, the rental period is about 3.5 days. A further breakdown of the data indicates that business travellers rent vehicles for 2.5 days, domestic tourists for 4 days and international tourists 8.5 to 10.5 days. This pattern and duration of usage is similar to that applying in the United States (Waters 1984).

## **Customer profile**

In the 1960s, the car rental customer profile was primarily characterised by the higher socio-economic group (usually male), who travelled for business purposes. Industry sources claim that the cost of car rental was generally perceived as being high and limited to

persons with corporate travel accounts. In order to broaden the rental base during the late 1970s, the industry promoted rental vehicles as a replacement for both the private car, and use in the expanding leisure/tourist market. It was estimated that, during this period, less than 3 per cent of the eligible Australian population had rented vehicles (Ansett 1981).

During the 1980s, there has been an increasing emphasis by the industry on suburban rentals, which, in turn, has required diversification of the range of rental vehicles. Currently, business travel accounts for around one-half of rentals, compared with an estimated four-fifths in 1965.

These developments have resulted in a marked variation existing between airport and non-airport car rental customer profiles. Even within the airport sector there are pronounced differences between international and domestic user profiles. Around 90 per cent of rentals associated with inbound international visitors is leisure/tourist related, whereas 80 per cent of rentals associated with domestic air travel is business oriented travel, reflecting the significance of business purpose travel in domestic air passenger transport (BTE 1985a).

The purpose of rental also varies markedly between operators, with Avis claiming that over two-thirds of its rentals are for business purposes. Budget, on the other hand, estimates that business rentals constitute just under one-half of its rental turnover, with leisure/tourist purpose rentals accounting for the remainder; Hertz attributes around three-fifths of its rental revenue to business travel and the remaining two-fifths to leisure/tourist related travel. At the same time, rental car penetration of the Australian market has increased overall, with some industry sources claiming that as much as 20 per cent of the eligible population rent cars (Budget Transport Industries 1986), compared with 13 per cent in the United States.

### **Domestic travel**

Information on domestic travel by Australians is provided by the Australian Standing Committee on Tourism (ASCOT), and has been collected at the national level since 1978-79 in the Domestic Tourism Monitor. The Domestic Tourism Monitor defines a trip as travel within Australia for any purpose, of at least 40 kilometres and involving a stay away from home for at least one night, but less than three months. In view of the limitations such a survey has, and the possible under-representation of car rentals (particularly, in terms of urban rentals), it nevertheless provides a comparative basis from which to view industry performance.

Modal comparisons for domestic travel reveal that private vehicles represented the main mode of transport for domestic trips, 45 million, or 82.2 per cent, in 1983-84 (ASCOT 1985). However, the past few years have seen an increase in the use of alternative transportation for domestic travel, most notably rental vehicles and coach travel, at the expense of air travel. The factors encouraging this trend on longer distance trips include the greater acceptance and cost effectiveness of rental vehicles, as well as the increased level of competition among a growing number of operators. The move towards smaller, more fuel efficient private vehicles for shorter journeys and rented vehicles for longer journeys, is also an emerging trend.

Domestic Tourism Monitor results indicate that trips undertaken by rental vehicles have shown a general upward trend over the 1978-79 to 1983-84 period, although there have been intervals of slower growth, due to factors such as economic recession and the consequent decline in airline traffic. According to the Domestic Tourism Monitor, rental vehicle trips increased by 45 per cent between 1978-79 and 1979-80. This increase can be attributed, in part, to the increased competition within the industry, following the liberalised entry conditions at major airports and the introduction of the flat rate pricing system in 1979. The use of rental vehicles for domestic trips fell by 1.8 per cent in 1980-81. The general growth trend was restored the following year with a 16.5 per cent increase. However, 1982-83 brought a substantial decline in car rental use, coinciding with a fall in real Gross Domestic Product and a 9.3 per cent decline in trunk and commuter air passenger numbers. Moderate recovery took place in 1983-84 with a 5.8 per cent increase in use over the previous year, although the level was still below that of 1981-82.

The average annual growth rate over the 1978-79 to 1983-84 period for rental vehicles (10.1 per cent) was larger than for air travel (0.3 per cent), private vehicles (3.7 per cent), and the overall annual rate of growth of trips of 3.6 per cent.

The 1983 ABS Domestic Travel and Tourism Survey indicated that 334 400 person trips involved fly-drive packages as the main mode of transport (ABS 1985). Moreover, in specific regional sector locations, for example, Tasmania, the fly-drive package represented a major component of the total transport task performed. Tasmania represented an estimated 7 to 10 per cent of total car rental turnover (depending on the season), with fly-drive packages accounting for some 40 per cent of rental business, making this an important area of the State's car rental industry. Industry sources estimated that, nationally, fly-drive packages account for 3 to 5 per cent of gross revenue.

### Travel by international visitors

Results of the International Visitor Survey (IVS), for the period 1978 to 1985, indicate the importance of rental vehicles as a supplementary mode of transport (see Table 3.5). The 1985 IVS results reveal that rental vehicles are a major mode of transport used by international visitors in Australia, with 18.6 per cent of visitors using self-drive rental vehicles. In 1985, some 198 000 international visitors used rental vehicles, representing an increase of approximately 40 per cent since 1981. The survey results also indicate that 27 per cent of North Americans visiting Australia used self-drive rental cars or campervans, compared with 18 per cent of Japanese tourist. Industry sources, while in general agreement with the percentage of international visitors using rental vehicles, suggest, however, that the Japanese use of rental vehicles in Australia is minimal, being generally less than 5 per cent. Currently, Japanese visitors tend to travel in organised groups rather than independently, thereby obviating the need for car rentals (Australian Tourist Commission 1985).

At present, the use of rental vehicles by international tourists may have scope for further growth judging by the New Zealand experience. For example, 33 per cent of international visitors to New Zealand used a rental car at some stage of their trip in 1982 (campervans accounted for an additional 4 per cent). Within this figure, 21 per cent of visitors used a rental car as the main mode of travel and an additional 3 per cent, a campervan.

IVS results also indicate that international visitors to Australia, on average, rented vehicles for 10.5 days in 1984. Of those visitors, 79.2 per cent booked the vehicles after they had arrived in Australia, with the remainder arranging rental in their country of residence. Expenditure by international visitors on domestic transport totalled \$271. Domestic airfares accounted for \$138 or 51 per cent, self-drive cars and campervans constituted the next largest component with \$46, or 17 per cent of average domestic transport expenditure (Table 3.6).

Given a continuation of current arrival trends and the maintenance of marketing budgets in real terms, the Australian Tourist Commission believes that inbound visitor arrivals will increase from 1.43 million in 1986, to an estimated 1.68 million in 1987 and 1.90 million in 1988. This represents an expected increase of more than 30 per cent over 1986 visitor arrival numbers. Growth rates from New Zealand, Japan and North America are expected to show the greatest gains in percentage terms.

TABLE 3.5 RENTAL VEHICLE USAGE: INTERNATIONAL VISITORS, VARIOUS YEARS

<i>Year</i>	<i>Per cent of use by visitors</i>	<i>Per cent as main transport used</i>	<i>Average number of days used</i>
1978	14.8	6.7	8.2
1979-80	16.1	8.3	8.4
1981	15.0	na	8.4
1983	16.5	5.3	na
1984	17.6	7.2	10.5
1985	18.6	na	na

na Not available.

*Sources* Australian Tourist Commission (1986b,c).

TABLE 3.6 AVERAGE EXPENDITURE PER VISITOR: DOMESTIC TRANSPORT, 1985

<i>Category</i>	<i>\$</i>	<i>Per cent</i>
Domestic air fares	138	50.9
Self-drive cars, vans	46	17.0
Petrol, oil costs	27	10.0
Taxis, limousines	26	9.6
Train, coach fares	22	8.1
Coach tours <sup>a</sup>	12	4.4
Total	271	100.0

a. Excluding accommodation.

*Source* Australian Tourist Commission (1987).

In addition, domestic tourism is expected to increase, given the continuing strong commitment to tourism by the States, Territories and the Commonwealth Government, combined with the Bicentennial celebrations. Growth is expected to include an average annual increase in expenditure by domestic travellers of 5 per cent in real terms; an increase of 10 per cent in the average length of domestic holiday trips; and an increase in the number of trips taken (Australian Tourist Commission 1985). Developments along these lines are likely to have beneficial spillover effects for the car rental industry in terms of sales turnover and rental duration.

## CHAPTER 4 COMPETITIVE PARAMETERS

During the past decade, significant changes have occurred in the Australian car rental industry in terms of pricing practices, growth, intensity of competition, and liberalisation of entry to the airport sector. These developments have been in no small part attributable to structural changes occurring in both the industry itself and the wider economy. The interplay of external and internal economic forces has facilitated an expansion in overall demand and the range of services provided.

The airport sector continues to remain largely restricted to national operators by virtue of Commonwealth Government franchise arrangements. Besides this, there appear to be no inherent competitive advantages enjoyed by existing national operators which could not be accrued by new entrants, provided they could enter at an economic threshold size. Outside the airport sector, the low barriers to entry and exit generate extensive competition amongst national and second-tier operators. The structural conditions indicate that the generation of surplus economic rents appears likely to be eroded quickly, either by national operator competition or by entry of additional second-tier operators.

### GOVERNMENT INVOLVEMENT

State, Territory and Commonwealth Governments have the major impact on the car rental industry. Local governments through their ownership of airports also impinge upon the operation of the industry. Regulating access to airports is the major form of direct economic involvement by the Commonwealth Government. In addition, State governments (except Tasmania) levy a stamp duty ranging from 1 per cent on rental transactions in Queensland, 1.5 per cent in New South Wales and Victoria, to 1.8 per cent in Western Australia and South Australia. Also, charges are imposed on vehicle registration and third party insurance. Outside these areas, however, there is a general absence of economic controls on rental rates and sector entry.

Nevertheless, there are some qualitative licensing provisions relating to vehicles in Queensland under the *State Transport Act 1960*, and in Tasmania under the *Traffic Act 1925*.

## Airports

Access to Commonwealth airports is currently restricted to Avis, Budget, Hertz and Thrifty (although Territory Rentals does operate at Darwin airport). The terms and conditions of the *Airports (Business Concessions) Act 1959*, allows the Minister responsible to regulate operators' quantitative, qualitative and price activities at Commonwealth airports (see Appendix II). In addition, car rental operations at Commonwealth airports are affected by the *Airports (Surface Traffic) Act 1960*, which regulates parking and vehicle movements within the confines of the airports, and, consequently, has a significant effect on the activities of car rental operators in the course of their business. The future activities of car rental operators are also likely to be influenced by the Federal Airports Corporation, which was established under the *Federal Airports Corporation Act 1986* to administer and control the major Commonwealth airports.

The *Airports (Business Concessions) Act 1959* empowers the Minister to grant authorities to trade for periods of up to three years without the requirement to call public tenders. The 1984-85 to 1986-87 franchise rights to operate on Commonwealth airports were not put to tender. Under the guidelines for this particular franchise period, only operators meeting the then Department of Aviation's criterion of an ability to provide a national operation were offered an authority to operate at Commonwealth airports.

The Commonwealth *Airports (Business Concessions) Act 1959* also permits the granting of a limited authority. This authority may be given at the discretion of the delegate of the Minister, allowing car rental operators to meet pre-booked customers at airports and to collect vehicles after use. The issuing of limited authorities to operate on Commonwealth airports has been extended to a number of second-tier operators, for which a 'peppercorn' fee of \$1 is charged (if so demanded). The Department of Transport and Communications reserves the right to impose a higher charge. At present, given the scale of business of these operators, this has not been considered warranted.

## Concessional developments

The concessional arrangements at Commonwealth airports have undergone a number of changes since 1959. In the period 1959 to 1979, Avis had an exclusive franchise to operate at Commonwealth airports, for all but a three-year period between 1961 and 1964. Following the expiry



of the 1969 to 1979 exclusive airport franchise, tenders were invited for a new contract spanning a five-year period, ending June 1984. Tender outlines provided by the then Department of Transport required two national operators and a third on an airport-by-airport basis. Following the submission of lump-sum tenders, Hertz and Budget were successful at the national level, operating at 48 Commonwealth airports. Hertz bid a minimum of \$8.1 million (12.1 per cent of expected gross turnover) and Budget bid \$3.2 million (7.5 per cent of expressed gross turnover). The previous sole Commonwealth airport operator, Avis, was successful at only 11 of the 32 airports under the airport-by-airport tender basis. A number of franchises, trading either as Thrifty or Letz, were the successful third operators at all but one of the remaining airports (see Appendix V). The Hertz bid resulted in the company effectively paying 27 per cent of its actual gross turnover at Commonwealth airports to the government, and this was a major factor in causing the financial difficulties the company experienced in the early 1980s.

The 1984-85 to 1986-87 concession arrangements proceeded on the basis of an 8.5 per cent *ad valorem* franchise fee calculated on total turnover at Commonwealth airports. The concession also contained an administratively determined annual fixed fee per operator, that would be effective should each operator's *ad valorem* payments to the Commonwealth Government fall below \$900 000 for the three-year period. The then Department of Aviation, prior to finalising the 1984 arrangements, sought expressions of interest from all operators within the car rental industry. Other than the national operators, only two replies were received from second-tier operators. Current arrangements applying from 1 July 1987, represent a renegotiation along lines similar to the previous agreement's terms and conditions.

At non-Commonwealth airports, the arrangements vary considerably for car rental operators, ranging from operating free of charge (in isolated areas), to lump-sum annual rental (often tied to Consumer Price Index movements), or a combination of lump-sum plus a percentage of turnover (as with Cairns airport). National operators are extensively represented at these locally controlled airports, often by franchised outlets.

Currently, one of the largest of the second-tier operators, National Car Rental, has a corporate and franchised fleet of around 400 vehicles. This operator's corporate strategy in the short to medium term appears to be aimed at gaining better access to the airport sector. An expansion in the number of airport rentals is possibly seen by National as essential, if it is to increase significantly in size. Presently, National only has a limited authority, like a number

of other second-tier operators (Airport Rent A Car at Canberra, Sydney and Coolangatta, for example), to meet pre-booked customers at selected east coastal Commonwealth airports.

### **Non-airport sectors**

The downtown and suburban, country and remote sectors provide for relatively easy entry. There are few inherent obstacles to entry arising from the need to obtain licences or other permits from any regulating authority. A number of States impose limited qualitative licensing procedures by requiring operators, who conduct car rental businesses, to license each of their vehicles. Queensland, for example, requires rental vehicle licences for the stated intention of eliminating 'fly by night' operators, while at the same time ensuring that satisfactory safety standards are maintained. In practice, these licensing procedures appear to provide minimal economic impediments to prospective entrants.

Moreover, no licensing provisions exist for the setting of rental rates. Consequently, operators are able to set their own rates without restriction, with the exception of Commonwealth airports where standard rental rates applying at airports are not permitted to differ from standard non-airport rates. The general freedom to vary rates, coupled with the cyclical patterns of demand and competition from other operators, gives rise to considerable rate differentials occurring over time.

### **ECONOMIES OF SCALE AND SCOPE**

The existence of scale and scope economies in an industry on a firm-wide basis, can have a major effect on the structural composition of an industry. Presence of scale and scope economies can raise considerable barriers to entry for new entrants into an industry (Bain 1956).

Economies of scale refer to the relationship between costs and levels of output, in particular, an increase of output associated with a proportionately lower increase in inputs (BTE 1985b). On the whole, there appears to be little direct evidence of significant real economies of scale (production and management specialisation, for example) being enjoyed by firms relative to the size of the industry. However, scale economies may exist in regard to a number of high volume downtown outlets, but these economies appear confined to these specific locations. Overall, scale economies do not appear to represent a significant entry barrier to the industry, as operators, regardless of size and output, commonly face similar cost structures in regard to geographic locations and price/quality trade-offs.

Given the absence of significant scale economies and other inherent barriers to entry, there is no evidence at present of a tendency towards a natural monopoly in the industry.<sup>1</sup> Nevertheless, some pecuniary scale economies are available to the national operators through volume purchasing of vehicles and supplies. The relative financial benefits of this appear to be quickly exhausted, however, by national operators incurring higher overhead costs in the administration of their networks.

National and second-tier operators commonly function as multi-product businesses. This allows operators to accrue the advantages of scope economies (Baumol, Panzar & Willig 1982), which are similar to scale economies, but relate to the dimension of the business, such that an operator can provide a number of services at a lower cost per unit than an operator providing a single product.

National operators appear to enjoy economies of scope mainly through vehicle lease and fleet management activities, and through the extent of their network. In regard to the former, these activities generally operate as separate divisions from car rentals, although there is commonly joint utilisation of maintenance and repair facilities, as well as certain administrative areas that help defray overall costs. This would indicate that, for most operators, the cost of producing these two services in combination is likely to be less than the total cost of producing each completely separately. Similarly, the number of second-tier operators that conduct additional businesses (service stations or car sales, for example), appear likely to generate some economies of scope through use of their associated facilities in their car rental operations.

The other major area in which scope economies accrue is the geographic coverage or network which operators maintain. National operators are able to enhance their competitive position vis-a-vis second-tier operators by their ability to secure business through a national, and indeed international, network of outlets. For this reason, national operators are able to acquire much of the business purpose rentals that require an operator to have a wide spread of outlets. The ability to pre-book cars, for example, from interstate, and to serve walk-up account customers throughout a wide geographic area, provides operators with the benefit of channelling business from one area to

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1. A natural monopoly arises when the technology of an industry or the character of its service is such, that the consumer can be served at least cost or greatest net benefit only by a single firm (Kahn 1971).

another, that feeds directly into an overall expanded output. Even so, this may not represent a significant barrier to entry as all operators will largely be confronted by the same conditions, with no inherent advantage being enjoyed by existing operators that could not be gained by new entrants who are able to operate at an appropriate scale.

Without a detailed analysis of actual business undertakings, it is difficult to assess the overall influence that scope economies have in this industry. Thrifty, for example, does not appear to be at an overall competitive disadvantage in car rentals by not operating a lease or fleet management division, suggesting, that the above form of scope economies may not be instrumental in acting as a *prima facie* barrier to entry.

The position in regard to network scope economies is somewhat different, as this could constitute an impediment to effective participation by operators who cannot operate at a threshold number of multiple locations. The issue then comes down to a question of the size of entry that is viable at a national operator level (Stigler 1968).

#### **CAPITAL REQUIREMENTS**

The industry can generally be characterised as having significant fixed costs associated with its activities, but not a high level of sunk costs.<sup>2</sup> During recent times, resale values of vehicles have remained exceptionally strong (Glass's Dealer Guide 1987), making exit costs from the industry comparatively low. Around one-half of operator costs are vehicle-related (capital, registration, servicing and third party insurance, for example). The well-developed nature of the used car market is such, that operator vehicle fleets are capable of being quickly converted into liquid assets.

Advertising, designed to build product loyalty and broaden consumer awareness, is one area involving considerable sunk costs. Given the inherently homogenous nature of the national operators' product, considerable resources have been expended on establishing brand

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2. A sunk cost is a cost, which on exit from the business, is non-recoverable. A fixed cost may be defined as the minimum outlay by a firm necessary to conduct business, but this need not be a sunk cost as it will depend upon the nature and location of the expenditure. A rental car, for example, while representing a fixed capital cost, is not a sunk cost, given its transferability between locations and alternative uses (such as a private car).

identity. The extent to which this, in turn, creates any sustainable barrier to new entrants appears questionable.

Operators commonly have a mixture of lease and equity interests in real estate and vehicles. The actual practices vary extensively between operators, with Hertz, for example, purchasing their vehicles outright. The major capital investment needs of operators relate to the provision of vehicles, with the necessity for large capital outlays being lessened by the availability of lease financing on either a residual or non-residual basis. Under the residual leasing arrangements, at the termination of the agreement the operator is required to pay to the lessor the residual value and then has the responsibility of disposing of the vehicle. In contrast, under the non-residual leasing agreement, the operator is not liable to make any capital payment or required to dispose of the car.

Large numbers of second-tier operators are associated with, or operate within, the motor trades industry, thereby providing a ready outlet for cars previously used for rental or vice versa. During a downturn in business, operators appear to be generally well positioned to adjust fleet sizes at relatively low cost, by selling vehicles into the used car market.

### **Franchising**

One means of minimising capital outlay and defraying capital expenses is to franchise. This is a growing trend amongst national operators and some of the larger second-tier operators, as a means of network expansion. Two basic franchise systems tend to operate, both providing a licence to operate on a territorial basis. The franchisee may operate within a commission system, or an arrangement where an initial (or annual) fee is paid to the franchisor for the licence, as well as a certain percentage of the turnover from the outlet. The turnover based payment to the franchisor is commonly around 6 to 7 per cent for country areas, and around 10 per cent for metropolitan locations. Some form of the second system is the most widely used.

The extent of franchising differs between national operators. In late 1984, Avis announced a program to franchise outlets, especially the high cost/low volume locations, in order to reduce its overall operating costs and rapidly expand the number of outlets in non-metropolitan areas. Avis and Budget have around three-fifths of their outlets franchised (with this proportion progressively increasing), Hertz around two-thirds and Thrifty nearly one-third. Although the emphasis may be changing, corporate outlets have historically been the major source of turnover compared to the less intensively used franchised outlets.

In terms of a global network of car rental operations, major United States operators have pursued different strategies in regard to international ownership and franchise patterns. Hertz' strategy has been built around direct ownership in individual countries, as has Avis to a lesser degree, while Budget and Thrifty have sought primarily to use franchising as a means of spreading their international network.

### **Service agreements**

Association with one of the major airlines is not a precondition for entry to the national car rental market; it is, nevertheless, seen as offering some benefit to the operator in gaining access to a pool of potential customers. Preferred product arrangements commonly operate between national car rental operators and airlines, with joint marketing operations that assist in directing business to each other. On this basis, such measures as booking a rental car in-flight can be made. Some of the more notable of the preferred product arrangements are those between Ansett Airlines and Avis, Australian Airlines and Hertz, and Qantas and Budget. Such arrangements also exist with foreign international carriers operating to Australia, and with the hospitality industry.

In generating business for car rental operators, travel agents account for less than one-fifth of industry sales. This contrasts with the significance of travel agents in other sectors of Australian passenger transport, notably intercapital coaches, where they account for around 70 per cent of total sales (BTE 1985b). In the United States, nearly one-half of car rental sales are attributable to travel agents (Seymour 1983).

Nevertheless, one area where travel agents are significant is in relation to car rentals for regional tourist destinations. An estimated 40 per cent of Tasmania's car rentals are those associated with fly-drive packages and, while the airlines themselves offer fly-drive packages, it is the packages offered by Tasbureau that dominate (see Appendix III). To date, major operators have considered it important to be included in Tasbureau's fly-drive package program in order to gain access to a major source of the State's car rental business. The nature of wholesaling services, which are involved in such packages, often see operators receiving relatively thin margins.

### **MODAL RELATIONSHIPS**

The car rental industry is both a substitute for other modes and, in specific situations, a complementary product. Improvements in vehicle

technology and road conditions, such as the National Highway system, have led to increases in long distance car rentals (particularly one-way) thus providing a substitute for other transport modes such as coaches. Generally, the benefits arising from the use of a rental vehicle, as compared to other transport modes, increase as the rental distance increases. Although the major influences on choice of travel mode are commonly seen as relating to travel costs and travel time at substantial journey lengths, airline travel becomes more attractive.

In terms of the strength of substitute services, consideration needs to be given to the purpose of travel, as this will have a bearing upon overall consumer modal choice. For example, travel for business purposes tends to be more responsive to time considerations and less responsive to price, than that of non-business travel. Other influences on substitution include the number of persons travelling (individual, family or group), travel route, location of service outlets and conditions of travel. The choice of travel mode for non-business purposes is significantly influenced by price considerations.

To a large extent car rentals are a substitute mode in passenger travel, however, it must also be recognised that slightly under one-half of the national operators' business is conducted as a complementary service to air travel through rentals at airports. The linkage between air travel and rentals at airports is especially highlighted in a location like Tasmania (see Appendix III). An increase in demand for a complementary product such as airline travel, arising from sources such as an increase in international visitor arrivals or declining domestic airline fares, would therefore be expected to stimulate demand for car rentals.

An example of the impact of developments in other modes can be seen from the generally positive effects that deregulation of the United States airlines industry has had on the overall demand for rental vehicles. In the United States, a major proportion of car rentals are tied in with airline travel; consequently, growth in air travel, following deregulation, has spilled over directly into increased demand for car rentals.

## PRICING PRACTICES

Intense price competition between operators has been a general feature of this industry over the last decade, particularly at the national operator level (see Appendix IV). In more recent times, both Avis and Hertz have shown a more vigorous response to pricing initiatives by Budget. The elapsed time between national operators responding to each others' price moves, especially, when it has an impact on

relative turnover share positions, has decreased markedly (see Table 3.3). Recent pricing moves by Avis ('Super Saver' program) has seen other operators take counter measures to prevent turnover share erosion.

In addition to the specialised rental types, there have been programs such as Budget's 'Freedom Cheques' (on payment of a lump-sum, a guarantee of a certain number of fixed-price rentals) and regular renter bonus programs. In the 12-month period ending March 1987, Avis operated a regular renter 'giveaway' program for Ansett Golden Wing members. To date, 'giveaway' programs have not emerged to an extent comparable with those which have operated in the United States in the early 1980s, when 'giveaways' extended to such items as free use of rental vehicles (after a certain number of rental points were achieved), television sets, and domestic and overseas holidays. It is worth noting, that many of the marketing and pricing innovations which have been introduced in Australia, often mirror developments that have occurred in the United States.

### **Discounts**

National operators issue a rate card that sets out the cost of a standard rental for various vehicles. The competitive nature of the industry and attempts to even out fluctuations in rental demand, have produced a proliferation of special rental rates and programs that provide discounts against standard rental rates. Three general types of discounts can readily be identified:

- . those associated with membership of a club or program conducted by an operator (included in this are business or corporate rental rates);
- . periodic rental discounts that are for a set period or specific region; and
- . established rental discounts that take account of time of rental, or length of rental, or both.

Table 4.1 illustrates a number of rental rate types offered and the extent of discount against standard rates. Avis Business Rates on their Business Class car group (Commodore and Falcon) provide a 23 per cent discount on the standard daily rate for these vehicles. To be eligible for this discount, an Avis Credit Card or American Express Card is required. Operator discounts applying to monthly, half day, hourly, overnight, off-season and business rentals are also available.



TABLE 4.1 EXAMPLES OF GENERAL RENTAL DISCOUNTS OFFERED BY NATIONAL OPERATORS, NOVEMBER 1986

<i>Rental rate</i>	<i>Per day discount on metropolitan daily rates</i>	<i>Conditions</i>
Monthly rate		
Avis	27 per cent	
Budget	20 per cent	
Hertz	Varies, 40 per cent average	
Thrifty	33 per cent	
Moonlight rate		
Avis	Varies, 40 to 42 per cent average	5.30pm to 8.30am, subject to availability
Overnight rate		
Hertz	50 per cent	4.00pm to 9.00am, one-way rentals not available
Business rate		
Avis	Provides up to 23 per cent	Available to users of an Avis Credit Card or American Express Card
Thrifty	Provides up to 18 per cent	Available to companies using Thrifty Credit Card with a major credit card

TABLE 4.1 (Cont.) EXAMPLES OF GENERAL RENTAL DISCOUNTS OFFERED BY NATIONAL OPERATORS, NOVEMBER 1986

<i>Rental rate</i>	<i>Per day discount on metropolitan daily rates</i>	<i>Conditions</i>
Business class		
Hertz	Provides up to 27 per cent	Available to members of Hertz Business Class using a credit card
Corp rate		
Budget	Provides up to 26 per cent	

*Note* Calculations do not include stamp duty, collision damage waiver fee and personal accident insurance.

*Sources* BTCE estimates. Operator rate cards.

A further set of discounts on standard daily rates are special rates associated with rental over an off-peak or extended period. Table 4.2 sets out the level of discount available and conditions that apply to a number of such rentals. Demand for rental vehicles fluctuates considerably over the course of a week, with Tuesday, Wednesday and Thursday the busiest days, especially for national operators. To achieve enhanced fleet utilisation, operators have reduced rates in off-peak periods and provide enticements such as three days for the price of two, aimed particularly at the local non-business renter who will commonly return the vehicle to its original place of rental.

The rental rates offered by the national operators are generally subject to a number of restrictive booking, time and travelling conditions (see Tables 4.1 and 4.2). The weekend rate, for example, offers significant discounts to customers willing to undertake rentals for a minimum of two days. Avis offers a 20 per cent discount against metropolitan daily rates for the first two days, and a 70 per cent discount on the third day's rental, while Budget offers three days for the price of two for rentals starting Thursday onwards and finishing by Monday morning. Hertz, on the other hand, offers between a 9 per cent and 42 per cent discount on daily rates depending on the duration of rental. 'Plan Ahead', 'Early Bird' and 'Holiday Rates' offer substantial discounts (ranging from 14 to 30 per cent) for consumers willing to book in advance (see Table 4.2).

In summary, over the last decade, national operators have featured innovative rate and service programs emphasising the flexibility, simplicity and cost savings of rentals, in attempts to expand the market and increase vehicle utilisation in off-peak periods. The introduction of flat rate pricing in 1979 resulted in a substantial increase in the general level of price and service competition at the national and second-tier operator levels. Amongst national operators, there has been considerable emphasis on rate competition as a means of maximising sales, which in turn has discouraged the emergence of significant new operators at the national level.

TABLE 4.2 LEISURE RENTAL RATES OFFERED BY NATIONAL OPERATORS, NOVEMBER 1986

<i>Rental rate</i>	<i>Per day discount on metropolitan daily rates</i>	<i>Conditions</i>
Weekend rate		
Avis	20 per cent on first two days, 70 per cent on third day	Available Thursday 12.00pm to Monday 12.00pm. Minimum two days rental
Budget	Three days rental for cost of two days	Available Thursday or Friday to Monday 9.30am. Not available on one-way rentals
Hertz	9 per cent on one day  28 per cent on two days 42 per cent on three days. 42 per cent on four days	Available Friday 12.00pm to Monday 9.00 am. Not available on one-way rentals Available Friday 12.00pm to Monday 9.00am Available Thursday 12.00pm to Monday 9.00am Available Thursday 12.00pm to Monday 9.00am Vehicle to be returned to renting location Further 10 per cent discount for cars rented at airport locations
Thrifty	Up to 40 per cent	Friday 12.00pm to Monday 10.00am
Off-peak		
Hertz	25 per cent	Depends on car availability
Standby		
Budget	25 per cent	Depends on car availability
Plan ahead		
Budget	30 per cent	Book and pay 30 days in advance, minimum three days rental

TABLE 4.2 (Cont.) LEISURE RENTAL RATES OFFERED BY NATIONAL OPERATORS, NOVEMBER 1986

<i>Rental rate</i>	<i>Per day discount on metropolitan daily rates</i>	<i>Conditions</i>
Holiday		
Hertz	30 per cent	Minimum three days rental. Book 30 days in advance
	35 per cent	Minimum 14 days rental. No pre-booking
	40 per cent	Minimum 21 days rental. No pre-booking
Early bird		
Avis	20 per cent or 30 per cent	Book 20 or 30 days in advance
Holiday		
Thrifty	30 per cent	Book 30 days in advance

*Note* Calculations do not include stamp duty, collision damage waiver fee and personal accident insurance.

*Sources* BTCE estimates. Operator rate cards.

## CHAPTER 5 INDUSTRY ISSUES

The car rental industry has developed in line with consumer needs. It suffers from few of the structural problems that often confront the more mature transport industries. In comparison to other transport industries, the car rental industry differs in the extent and scope of government economic involvement and degree of product complementarity.

The industry has experienced substantial turnover growth over recent years and a correspondingly high degree of competition amongst operators. The outcome of this process for consumers, in terms of rental rates and product service developments, has proved generally beneficial. Nevertheless, the longer term development of the industry will be affected by a combination of external and internal industry influences, relating to barriers to entry (notably to airports), general rates of growth and movements in industry price and cost structures.

The above list is by no means exhaustive, but is intended to highlight some of the more prominent, emerging issues that face the industry at present. Other issues, such as the fragmented nature of the industry's representational arrangements, are also likely to pose longer term problems. The car rental industry does not have a peak industry council to represent directly its views on a co-ordinated level to government. Consequently, the absence of any agreed policy perspective on the part of operators may well see industry participants continuing to react on an individual basis to externally imposed arrangements.

### COMMONWEALTH AIRPORT ACCESS

The arrangements for access to Commonwealth airports beyond early 1988, are due to be renegotiated toward the end of this year. The implementation of any new franchise arrangements at these airports may well involve considerable trade-offs between conflicting government objectives. For example, the promotion of an efficient industry

structure can conflict with the object of maximising government revenue yields from airport terminals.

### Approaches

To date, the allocation of access to Commonwealth airports has been formulated on three bases:

- . capacity to serve a designated number of airports;
- . lump-sum payment (1979 to 1984); and
- . current arrangements of 8.5 per cent *ad valorem* franchise fee based on gross airport turnover, or an administratively determined annual fixed fee, whichever is the greater amount.

In considering possible future concession arrangements at Commonwealth airports, two basic franchise payment mechanisms appear applicable. The first is a fixed payment system that does not directly relate to actual output, while the second is a variable payment system that is related to some measure of output. A hybrid of both of these systems is a third option. A fixed payment franchise system could centre upon either a lump-sum (based on competitive bidding) or an administratively determined annual fixed fee (such as the present stipulated minimum payments by operators). An *ad valorem* franchise fee and a per unit output fee (for example, based on the number of rental transactions or rental days) are each relevant examples of a variable payment system. It is not intended in this Paper to provide a detailed treatment of the subject of franchise payments, but merely to outline prominent features of the more common fixed and variable payment mechanisms. For a coverage of this topic, see Williamson (1976) and Chadwick (1859).

From a public policy perspective, it is generally viewed as desirable that there exist minimal incentives in any franchise payment scheme to induce parties to deviate from an optimal economic behaviour pattern. Secondly, any such scheme should be framed in a manner that allows the government to be in a position to collect economic rents associated with government-funded airport infrastructure and services. Thus, earnings which operators may accrue from their activities, and which are above a normal competitive rate of return (allowing for appropriate risk factors), should be capable of being recouped by the government. Thirdly, the franchising scheme should, all other things being equal, have relatively low administrative costs associated with its operations, be equitable and capable of being easily understood by all parties so as not to raise undue information barriers to market access.

The *ad valorem* and per unit output based schemes may discourage business activity, given that they directly increase marginal and average costs, which, in general, cause output to decline as rates increase. In terms of promoting economic efficiency, the payment of a fixed fee may have a more neutral effect, as it has no specific relationship to conditions affecting the operator level of output. However, this is conditional upon the fixed fee not unduly raising barriers to entry and, hence, impinging upon the entry of efficient operators.

The ability of the various franchise schemes to ensure that appropriate economic rents are collected has a number of conflicting dimensions. Theoretically, lump-sum payment schemes will identify the most efficient franchisees since they will tend to place a higher net value on the franchise and, accordingly, will bid the higher price. In practice, however, markets are often imperfect, having small numbers of actual bidders with limited information. As a result, it is possible that potential franchisees may moderate their bidding practices to accrue surplus economic rents. To counter this problem, restrictions can be placed on the number of spots to be allocated to ensure bidding remains competitive. The exclusion of operators has proved over the years to have been the most controversial aspect associated with the granting of Commonwealth airport franchises. The sometimes imperfect nature of information available to operators on which to assess possible economic rents, is possibly responsible for Hertz' over-bid for the 1979 to 1984 airport concession rights.

Lump-sum payment and administratively determined annual fixed fee schemes may also be seen as a significant barrier to entry and exit as they can represent a major sunk cost. As a rule, these schemes are likely to favour the larger operators more than the smaller operators. This is because there may be problems associated with second-tier operators raising the necessary capital to enable them to enter the airport sector, particularly if they are required to tender for the whole network. The problem of entry and exit barriers may be overcome, however, with per unit output and *ad valorem* payment schemes. These schemes generally rate more highly in terms of horizontal equity (equal treatment of equals) criteria, as opposed to a lump-sum payment scheme premised on a 'willingness to pay' approach.

A major advantage of fixed payment schemes is that they shift the risk and uncertainty aspects of a franchise onto the franchisees rather than franchisors. This has the effect of insulating the franchisor against loss of earnings that can result, for example, from an outbreak of significant discounting, translating into a major reduction in revenue yields. The current Commonwealth airport



arrangements operate on a percentage of operators' turnover coupled with an administratively determined annual fixed fee per operator, and, hence, reduces fiscal uncertainty to an extent.

It may be argued that the current hybrid of fixed and variable payment mechanisms does not represent an optimal mixture in limiting risk or maximising revenue yields. For example, the administratively determined annual fixed fee of \$350 000 per operator for 1986-87 represented only 12 per cent of Budget's payments to the then Department of Aviation, while for Avis it was around 16 per cent, Hertz 19 per cent and Thrifty 55 per cent. At such levels, this guaranteed fixed payment per operator to the Department does not serve the objective of providing a realistic safety net for Commonwealth revenue. The current arrangements, if they were to continue, would have minimal impact on national operators but would represent a significant impediment to any new entrants who could satisfy remaining Department of Transport and Communications requirements.

In attempts at maximising Commonwealth airport concession revenue and minimising barriers to entry and exit, a variable payment scheme incorporating per unit output and *ad valorem* fee components appears to provide a number of advantages. The per unit output fee component would protect Commonwealth Government concession revenue against rental discounting, while the *ad valorem* component would operate to accrue increased turnover resulting from rental rate increases. It is seen as important for equity and efficiency reasons, that the per unit output fee component should not disadvantage operators with particular rental patterns. An approach, such as a per rental day charge rather than an individual transaction, would be appropriate, as operators characterised by a high proportion of short period rentals would not be burdened in favour of operators with longer average rental periods. The per unit output fee could be set on the basis of an airport's preceding year's concession revenue and total number of rental days. Such a regime entails minimal sunk costs for operators and could be equally applied to second-tier operators who are currently charged a token fee of \$1 (if so demanded).

The minimisation of administrative costs is achieved most effectively by instituting a fixed payment scheme involving a single transaction. On the other hand, per unit output, and less so, *ad valorem* based schemes, do not score highly on this count, as they often involve considerable on-going administrative costs associated with periodic revenue collection, auditing of documentation and monitoring of activities. For all parties concerned, the costs associated with such activities can be considerable, both in financial terms and the

opportunities foregone in employment of resources in what, otherwise, may be more productive activities.

### Franchise features

Compared to earlier arrangements, the current system of car rental franchising at Commonwealth airports, on balance, has facilitated competition and provided a generally improved financial yield to the Commonwealth Government. Nevertheless, further improvements are possible in franchise arrangements at Commonwealth airports.

### Revenue

The revenue yield to the Commonwealth Government in 1986-87 from car rental operators totalled \$7.7 million, based on the Commonwealth airport turnover of \$90.6 million (see Table 5.1). Of this revenue, 84 per cent was derived from airports that are proposed for control by the Federal Airports Corporation.

Concession revenue derived from car rental operators at Commonwealth airports has increased by over ten-fold during the period 1975-76 to 1986-87, representing an average annual compound growth rate of 27 per cent (see Table 5.2). In 1985-86 and 1986-87, car rental airport concession revenue increased by 18.5 per cent and 23.8 per cent, respectively. Currently, car rental operators contribute a significant proportion (over one-eighth) of the total airport business concession revenue.

The profitability of car rental operations at individual airports varies widely. According to Avis, only 38 airports were profitable for car rentals in 1979, and of these, 17 generated 85 per cent of the company's profits (see the *TPC Case*). Table 5.1 shows that Sydney airport alone currently generates more revenue than will the proposed residual Department of Transport and Communications controlled airports.

The inclusion of all major operators at Commonwealth airports has contributed to an overall expansion in revenue collections available to the Commonwealth Government, compared to the late 1970s when in excess of one-third of the airport car rental business was conducted by non-franchised operators (see Table 2.4). Administrative and legal uncertainties appear to have posed some difficulties for adequate enforcement of the *Airports (Business Concessions) Act 1959* in this period. This leakage of revenue has now been reduced to a minimum, with the inclusion of all national operators on airports in 1984. However, at the margin, there is still a problem, as second-tier operators do not effectively pay for their limited access right. This raises fiscal and horizontal equity issues.

TABLE 5.1 CAR RENTAL TURNOVER AND CONCESSION FEE PAYMENTS AT  
COMMONWEALTH AIRPORTS, 1986-87  
(\$)

<i>Airports</i>	<i>Turnover</i>	<i>Concession fee</i>
<b>Proposed Federal Airports Corporation controlled airports</b>		
Sydney	19 953 620	1 696 058
Melbourne	15 788 699	1 342 040
Brisbane	13 505 592	1 147 975
Perth	6 821 097	579 793
Adelaide	6 221 474	528 825
Launceston	5 549 860	471 738
Coolangatta	5 047 721	429 056
Hobart	3 230 007	274 551
Essendon	136 393	11 593
Moorabbin	26 959	2 292
Bankstown	25 126	2 136
<b>Total</b>	<b>76 306 548</b>	<b>6 486 057</b>
<b>Proposed residual Department of Transport and Communications controlled airports<sup>a</sup></b>		
	14 333 480	1 218 346
<b>Total</b>	<b>90 640 028</b>	<b>7 704 403</b>

a. Proposed Department of Transport and Communications controlled airports comprise Canberra, Wagga, Williamtown, Longreach, Mt Isa, Rockhampton, Townsville, Mackay, Alice Springs, Ceduna, Darwin, Katherine, Mt Gambier, Port Lincoln, Tennant Creek, Whyalla, Broome, Carnarvon, Derby, Kalgoorlie and Learmonth.

*Source* Derived from Department of Transport and Communications (1987).

#### *Franchise fees*

The 8.5 per cent *ad valorem* franchise fee (assessed as a percentage value of turnover) is currently charged at Commonwealth airports regardless of a site's actual profitability or value of sales. If the

TABLE 5.2 COMMONWEALTH AIRPORT CONCESSION REVENUE, 1975-76 TO 1986-87

Year	Car rental		Total business		Car rental percentage of airport business concession revenue
	\$m	Percentage change on previous year	\$m	Percentage change on previous year	
1975-76	0.71 <sup>a</sup>	..	7.21	..	9.8
1976-77	0.77 <sup>a</sup>	8.5	8.73	21.1	8.8
1977-78	0.92 <sup>a</sup>	19.5	10.52	20.5	8.7
1978-79	0.98 <sup>a</sup>	6.5	12.29	16.8	8.0
1979-80	2.23 <sup>a</sup>	127.5	15.60	26.9	14.3
1980-81	2.91	30.5	20.75	33.0	14.0
1981-82	3.32	14.1	25.55	8.7	14.7
1982-83	4.08	22.9	24.22	7.4	16.8
1983-84	4.17	2.2	26.24	8.3	15.9
1984-85	5.25	25.9	32.76	24.8	16.0
1985-86	6.22	18.5	42.57	29.9	14.6
1986-87	7.70	23.8	57.30p	34.6	13.4

a. BTCE estimate.

.. Not applicable.

p Preliminary.

Sources Department of Aviation (1986). Department of Transport and Communications (1987).

value of petrol, personal accident insurance and collision damage waiver fee is excluded, the charge is equivalent to around 11 per cent of actual vehicle rental, based on a time and distance charge. This is higher than rates commonly applying at airports in the United States. Airport franchise fees in the United States are generally in the range of 8 to 10 per cent of actual vehicle rental outgoings, based on time and distance charges.

Current arrangements may well facilitate a degree of cross-subsidisation between locations since a set *ad valorem* fee is charged regardless of the amount of airport business. Alteration of fees to reflect more accurately the respective revenue potential of major airports, as opposed to those with very 'thin' traffic, would have benefits for all parties in terms of equity and efficiency. Currently, in excess of 80 per cent of Commonwealth revenue from airports is derived from fewer than one-sixth of the airports (see

Table 5.1). Realignment of fees on the basis of costs and elasticities is likely to produce a more favourable economic outcome than a single average rate applying across all airports. It can be expected that demand elasticity at certain major airports is such that enhanced concession revenue yields above current levels may be possible. A study of the underlying cost, demand and inter and intra-industry substitution possibilities, would be required on an airport-by-airport basis to delineate appropriate economic rents.

In the United States, the major national operators (Hertz, Avis, National and Budget) face aggressive competition from off-airport operators.<sup>1</sup> One of the largest off-airport operators, Alamo (with a fleet of 35 000 vehicles in 1985), has been able to undercut operators functioning on-airport. As a result, operators, such as Hertz, commenced moving to off-airport sites as a means of lowering costs and forcing airport authorities to lower franchise fees to improve their competitive position. Similarly, at London's Heathrow Airport, industry sources claim that up to one-half of the airport-sourced car rental business now takes place off-airport. The off-airport car rental operators are able to avoid paying franchise fees to the British Airport Authority and, in turn, can offer a significantly lower rental rate.

In summary, overseas evidence suggests that airport authorities' market power in respect of pricing may not be unrestrained, given the availability of substitute services. The growth and development of off-airport operators has resulted in a number of overseas airport authorities altering their pricing practices to accommodate competition. Development of a significant degree of off-airport competition in Australia has yet to emerge. However, whether the current situation remains is likely to depend, in large part, on the pricing and access conditions that apply to future airport arrangements and the extent to which national operator pricing behaviour discourages new competitor entry.

#### *Timing*

The actual duration of franchise arrangements can have a significant effect on the economic aspects of an industry, particularly if it raises barriers to entry and exit. The awarding of long-term franchises such as the exclusive franchise held by Avis from 1969 to

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1. In the United States, Thrifty functions as an off-airport car rental operator.

1979, appears to have had detrimental effects on the degree of competition and Commonwealth Government potential revenue yields. The inclusion of most national operators in the 1979 arrangements, coupled with revised franchise tendering arrangements, gave rise to a major expansion in overall Commonwealth revenue yields (Table 5.2).

The awarding of short-term franchises (for example, annually) would place the government in a position to benefit from any windfall gains to operators. The disadvantage with short-term franchises, however, is that they are likely to entail an increase in administrative costs (particularly with more frequent franchise arrangement revision), and may discourage operators from making long-term investments such as consolidating their operations on-airport. Even the current three-year concession period appears to allow insufficient time for substantial amortisation of assets.

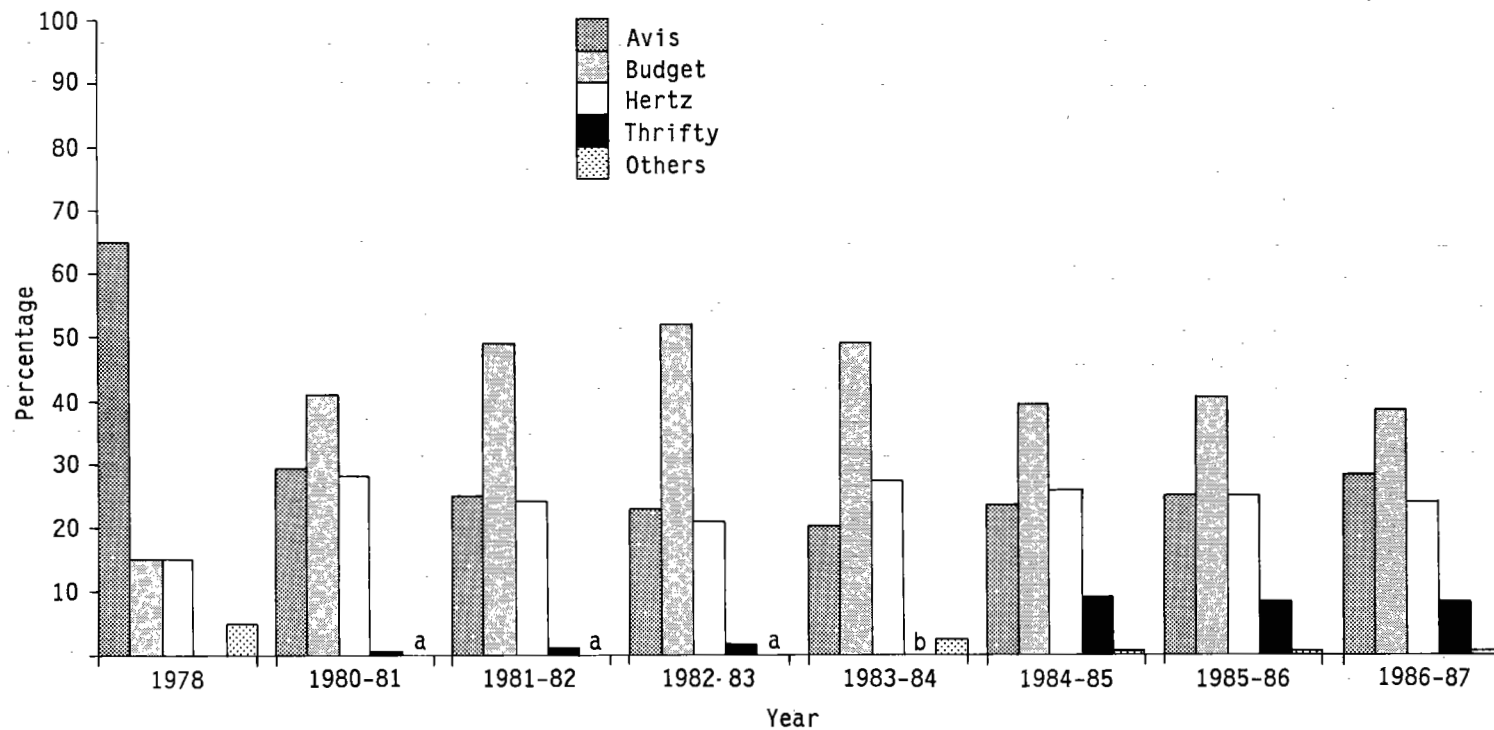
#### *Conditions*

At present, the Department of Transport and Communications stipulates a minimum number of Commonwealth airports to be served and places constraints upon on-airport operators' commercial behaviour, notably in regard to pricing. Segmenting franchises on an individual airport basis may be one option that could assist in facilitating entry. The current arrangements stipulate that an operator must serve 11 Commonwealth airports, which effectively requires a de facto national network.

Segmenting the airport sector is likely to aid in providing considerable real, as well as potential, competition to the national operators on individual airports, particularly in areas in which second-tier operators have a reasonably strong geographic base. As part of the 1979 airport concession arrangement, provision was made for a third operator on an airport-by-airport basis. A number of the second-tier operators that filled these positions were not wholly successful, as their expectations of business, shown by their tenders, proved optimistic, and they subsequently withdrew. However, this approach may again warrant consideration, especially in light of the lessons learnt by second-tier operators from this experience, and changes in the cost of entry.

#### **AIRPORT TURNOVER SHARES**

National operators account for nearly all airport-based business and around three-quarters of non-airport business. Their respective turnover shares have varied considerably, since 1978 (see Figure 5.1). For example, Avis' turnover share declined from an estimated 65 per cent in 1978 to 28 per cent in 1986-87. During the same period



Sources BTCE estimates and industry sources, Department of Transport and Communications (1987).

Figure 5.1 Car rental turnover shares: Commonwealth airports, 1978, 1980-81 to 1986-87

Budget's share increased to 39 per cent. While Budget has the largest share nationally it ranks second to Hertz in the Australian Capital Territory and Tasmania. Currently, the national operators devote considerable resources to protecting their relative market shares. The perceived importance of monitoring and following competitors' moves has been a major feature of this industry since the late 1970s. The direct result of this behaviour has seen widespread repositioning of operators' rental rates and service levels with consequential beneficial effects for consumers (see Chapter 3). This strong commitment to retaining turnover share, especially by the largest operator, shows no immediate signs of lessening.

A strategy built around turnover share improvement is often associated with the initial growth phase of an industry. In most cases, the maintenance of this strategy by industry leaders tends to diminish over time (Porter 1980). This is often due to the heavy commitment of resources that such a strategy may entail, in the absence of an inherent competitive advantage like a lower general cost structure. There is no evidence that any national operator has an overall competitive advantage of this kind.

#### **GROWTH, UNCERTAINTY AND INTEGRATION**

Car rental industry growth is heavily dependent on developments in both the wider economy and in complementary activities. The industry tends to be strongly correlated with movements in the economy, rather than being anti-cyclical as is the case with intercapital coaches. The relatively strong rates of economic growth experienced over recent years, coupled with the general expansion in tourism, has added impetus to the industry's growth.

In the short to medium-term, at least, changes in the aviation industry and control of Commonwealth airport terminals are likely to heighten industry uncertainty.<sup>2</sup> United States experience suggests that deregulation has contributed to an expansion in the overall size of the airline market (BTE 1986). Liberalisation of the Australian airline market from October 1990, if it were to follow the North American trend, is likely to see an expansion in passenger numbers,

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2. The Commonwealth Government has given notice under the Two Airline Agreement to terminate the agreement as from October 1990. In addition, it has detailed its withdrawal from the process of regulating the importation of aircraft, determination of passenger capacity, the setting of air fares by the Independent Air Fares Committee and removal of economic constraints on the entry of new domestic operators to trunk routes.



which in turn could be expected to have beneficial effects for car rental demand. In the wake of changes in the aviation industry's competitive structure, a significant expansion in the number of airline passengers travelling for leisure purposes is likely. A by-product of this could be the emergence of dedicated off-airport national car rental operators, most notably in high density locations. Experience overseas indicates, that such operators can avoid the need to pay franchise fees to airport authorities and exercise greater discretion in terms of hours, scope and conduct of their overall operations, giving them a lower overall cost structure in comparison with on-airport operators. Whether this situation eventuates on any large scale in Australia, is likely to depend on the pricing strategies adopted by on-airport operators in response to off-airport operator competition and future airport concession fee arrangements.

The Federal Airports Corporation is intended to take over the management and control of domestic and international airport terminals at major airports on 1 January 1988. It is envisaged that around one-half of the Corporation's revenue would be derived from business concessions and rentals, with the remainder coming from landing fee charges. In view of the pivotal position that airports hold for car rental operators' business, changes to the control and ownership of these facilities may have considerably longer term implications for individual operators and the industry as a whole. The nature of the car rental business at airports is such that changes in control of terminals, for example, cannot be viewed in isolation from operators' use of other on-airport facilities. There may exist substitution possibilities for operators to move their point of rental to other on-airport locations.

At present, vertical integration with associated industries is not a feature of the Australian car rental industry. However, this was not the position in the late 1970s when Ansett Transport Industries, and Trans Australian Airlines purchased Avis and Hertz, respectively. The purchase of Avis by Ansett gave rise to the TPC proceeding under the *Trade Practices Act 1974* (section 50) to restrain Ansett from acquiring shares in Avis and thereby preventing it from dominating the car rental industry. Justice Northrop ruled that Ansett's purchase of Avis would not place it in a position to control or dominate the national market (see the *TPC case*).

The current situation is that both airline operators have sold their interests in the respective car rental operators. In addition, in 1983 the Australian Guarantee Corporation sold its shares in Budget Rental Operations Pty Ltd to Budget Transport Industries Pty Ltd, owned by Messrs Hamley and Ansett (Budget Transport Industries 1986).

The forward integration of industry suppliers (such as vehicle manufacturers, oil companies and financial services) into the car rental business has not been a general feature in either North America or Australia. This contrasts with the position in Japan where a number of major Japanese rental car firms are owned by local vehicle manufacturers.

## **COST AND PRICE STRUCTURES**

Macro-economic developments in wages, interest rates and exchange rate movements, are likely to have the most pronounced effects on the short to medium term cost structure of this industry.

Major increases in costs of rental operations have occurred, particularly as a result of exchange rate movements and their adverse effect on new car prices. In the 12-month period ending March 1987, average new car prices rose by around 20 per cent. For the larger vehicles (Commodores and Falcons), which comprise approximately one-half of the national operator fleet, the price increases have been about 17 per cent; medium size vehicles (Meteor and Corona) have averaged 23 per cent; and somewhat higher increases have occurred in the smaller cars (Pulsar and Corolla). As new car prices represent the largest single cost item for operators, their continued escalation can be expected to place upward pressure on rental rates.

In an attempt to reduce costs and remain competitive, national operators are increasingly franchising outlets. The continuing opportunities for operators to gain pecuniary cost savings by franchising further low volume outlets, however, appear minimal. Instead, enhanced productivity is likely to accrue from technological advances and improved system management practices. This is particularly so in the area of reservation systems and airport terminal operations. The fragmented physical layout of some of the major air terminals gives rise to considerable expense for operators, by having to maintain multiple desks and deal with the logistics of parking arrangements for rental vehicles at terminals.

The relatively high level of competition within the car rental industry has given rise to rental rate structures that appear, on the whole, to correlate well with general cost and overall demand conditions. One specific limitation on national operator pricing behaviour relates to rental rates at Commonwealth airports. Under the licence and authority agreement between operators and the Department of Transport and Communications, normal on-airport rental rates are not permitted to vary from that of non-airport rates, even with the possibly higher cost structures on-airport.

For marketing purposes, national operators establish a maximum price, regardless of whether the rental is from the airport or non-airport sectors. In reality, the overwhelming majority of airport business takes place at rates significantly below standard rental rates, given the large number of corporate account clients and fly-drive packages. Restrictions on pricing freedom, however, may limit national operators servicing airports that have a high cost structure, and for which they are unable to charge an appropriate rate. Consequently, the liberalisation of such restrictions on operators' pricing discretion could lead to a general improvement in resource allocation by a closer alignment of rates to costs.

#### **SAFETY AND COMPULSORY THIRD PARTY INSURANCE**

A systematic statistical collection of accident data is not available to provide details on the number and causes of accidents involving rental vehicles. On the basis of limited insurance (compulsory third party) data, however, it appears that in Tasmania, for example, registered rental vehicles are up to ten times more likely to be involved in an accident than a private vehicle (Law Reform Commission of Tasmania 1986). The greater risk of accident may be accounted for, in part, by the higher exposure of rental vehicles, given that, on average, they travel three times the distance of private cars.

There is considerable variation in compulsory third party insurance premiums amongst the States and Territories, as can be seen from Table 5.3. New South Wales, Victoria, Queensland and the Northern Territory rates are around two to three times that of Western Australia, Tasmania and the Australian Capital Territory. All States and Territories, with the exception of the Australian Capital Territory, subject rental vehicles to higher third party insurance premiums than private cars.

There may be a degree of cross-subsidisation between rental vehicles and other vehicles. In 1984-85, Tasmanian compulsory third party premiums for car rental vehicles amounted to \$403 637, while claims totalled \$2 193 451, translating to a loss of \$905 per registered rental vehicle (Law Reform Commission of Tasmania 1986). An additional dimension to this problem, for compulsory third party insurers, is that rental vehicles often move extensively between States and Territories during the course of any 12-month period. The interstate movement of rental vehicles gives rise to added administrative costs in dealing with drivers who are non-resident. For example, in 1984-85 nearly one-third of Tasmanian third party claims for rental vehicles involved accidents occurring interstate.

TABLE 5.3 COMPULSORY THIRD PARTY INSURANCE PREMIUMS, 1986

<i>State/ Territory</i>	<i>Private car (metro) \$ per annum</i>	<i>Rental car \$ per annum</i>	<i>Licence fee</i>
New South Wales	213.00	516.50	..
Victoria	210.10	449.80	..
Queensland	224.00	486.00	\$27.00 (12 months)
South Australia	168.00	287.00	..
Western Australia	124.45	178.45	Special plate \$8
Tasmania	126.00	207.00	\$20.00 (12 months)
Australian Capital Territory	243.00	243.00	..
Northern Territory	174.00	488.50	..
Average	185.30	357.00	

.. Not applicable.

*Sources* State and Territory Motor Vehicle Insurance Regulations.

## CHAPTER 6 CONCLUDING REMARKS

The car rental industry has experienced strong turnover growth over recent years, with a correspondingly high degree of competition amongst national operators. Since 1975 the industry's turnover has increased by over eight-fold to an estimated level of between \$200 million to \$230 million in 1986. Airport sector rentals have historically been the single most important component of the industry, and continue to be so. Industry turnover is dominated by the four national operators, although the number of second-tier operators has expanded, particularly in tourist areas, to nearly 500 operators in 1986. The industry employs around 2500 persons and operates an estimated 25 000 vehicles, the majority of which are late models.

The industry can increasingly be characterised as having more appeal to the public at large, greater market segmentation, repeat rentals and network rationalisation, notably through franchising outlets. The path of industry change, on the whole, has provided considerable benefits to consumers and has assisted in improving operator efficiency within the industry. For the consumer, there has been a fall in real rental rates, broadening of product lines and considerable marketing innovations. However, in view of the substantial increase of input prices such as vehicles, it appears unlikely that the current level of real rental rates can be maintained. Vehicle costs represent around one-half of operator expenses, a share that has been increasing in real terms over recent years.

Shifts in consumer preferences and demand patterns has brought changes in the composition of fleets, operator turnover shares and service provision. The renting of large vehicles for business orientated purposes still represents the major source of revenue for national operators. The average period of rental for national operators is estimated to be 3.5 days, with demand peaking in the mid-week block of Tuesday to Thursday, while second-tier operators have their major period of demand centred upon the weekend.

The proportion of non-business purpose rentals has expanded, a trend expected to continue, bringing with it changes in the average length of rental and attendant demand for specialist rate programs. In this context, international visitors are expected to play a prominent role, given the projected arrival growth rates by the Australian Tourist Commission. Surveys of international visitor expenditure on rental vehicles indicate that up to one-quarter of the industry's turnover is derived from international visitors.

In the medium-term, the Commonwealth Government's decision to terminate the Two Airline Agreement may well result in an overall expansion in demand, flowing from possible new airline entrants and associated price competition. Given the United States experience with deregulation, this may be expected to increase leisure purpose travel and benefit complementary service activities such as car rentals. Major incursions by second-tier operators into the airport sector are marginal at present, however, there may be potential for this to increase, especially in tandem with airline deregulation.

The relative turnover shares of national operators has changed markedly over the last decade. Amongst these operators, there is now a less skewed distribution in turnover shares than was the case prior to the liberalisation of Commonwealth airport access in 1979. Avis was estimated to account for two-thirds of national operator airport turnover in 1978, while Budget and Hertz each contributed around one-sixth. By 1986, Budget had the largest turnover share of two-fifths, with Avis and Hertz each controlling one-quarter and Thrifty around one-tenth.

#### **PUBLIC POLICY PERSPECTIVES**

An examination of the structural attributes of the industry does not reveal substantive reasons for alteration of the current level of regulation applicable to the non-airport sectors due to evidence of any market failure. Present government control of the airport sector is seen as having more to do with financial parameters associated with the attainment of appropriate economic rents, rather than seeking to address any concerns about market failure. Other than in the airport sector, competition exists not only between the national operators on rental rates, rate structures and range of services provided, but also at a more general level between national and second-tier operators.

Industry participants' pricing behaviour appears competitive. The combined absence of a high proportion of industry sunk costs, and sustained periods of chronic over-capacity, ensures that destructive price competition (Kahn 1971) is not endemic in this industry. While

periods of intense price competition occur between operators from time to time, resulting in prices being driven down to levels approaching short-run marginal costs, past experience shows that this situation only persists for relatively short periods of time. The flexibility with which operators adjust to 'over-fleeting', by selling vehicles into the used car market, ensures that sustained chronic over-capacity is unlikely to be maintained by operators except for very short periods.

### Airports

The major public policy issue which continues to confront the government and industry alike, is related to Commonwealth airport access. The progressive expansion of operator access at Commonwealth airports over the last eight years has assisted in fostering an environment in which operators offer a range of competitive and innovative rental rates and extensive levels of service. Changes in access to these airports have, in the past, proved the catalyst for wider industry developments, with future concession arrangements also certain to play a pivotal role in the industry's continued development. Liberalisation of Commonwealth airport access has had an advantageous effect on revenue by ensuring the inclusion of major car rental operators on-airport, thereby reducing revenue losses due to non-authorised operators. In the late 1970s, for example, up to one-third of airport turnover was conducted by non-authorised operators.

Four major operators presently have access to Commonwealth airports. A new concession arrangement is scheduled to begin in early 1988, once again raising the issue of the extent and conditions of access. For the Commonwealth Government, the issue centres around maximising concession revenue from car rental businesses at Commonwealth airports, conducive to the maintenance of a competitive industry structure. This, in large measure, depends upon the degree of access provided to operators through the particular franchise fee regime adopted. Under the current concession arrangement, the set minimum payment per operator fails to serve realistically its purpose of protecting concession revenue, and acts more as a substantial barrier to entry for second-tier operators.

A number of mechanisms exist by which government can raise concession revenue without unduly creating barriers to entry to the airport sector. Both fixed and variable payment schemes have a number of advantages and disadvantages. Movement to a lump-sum payment scheme (based upon competitive bidding for a national airport franchise), can offer some advantages in terms of economic efficiency and administrative cost savings. However, in view of the small number of

potential bidders for national operator airport franchise rights, and the interlocking ownership that exists between two of the four national operators, this strategy may well represent an unacceptable risk to potential revenue yields, attainable by the government, without a limitation on the supply of sites.

A scheme continuing to incorporate an *ad valorem* component coupled with a per unit output fee, would offer economic, financial and equity advantages over existing arrangements. Such a scheme would also lower barriers to entry, provide a stable base for concession revenue by minimising any possible revenue losses from 'rate wars', and improve equity by charging all airport operators alike. The per unit output fee could be calculated either on an individual rental transaction or per rental day basis. The latter is considered less distortive and more equitable.

The move to more cost related and demand based pricing on an airport-by-airport basis has merit, compared to the present *ad valorem* averaging scheme applied to all Commonwealth airports, irrespective of turnover and profitability. At present, 93 per cent of revenue is derived from only 11 Commonwealth airports. The setting of individual fees on an airport-by-airport basis is seen as preferable, reflecting their respective revenue potential and cost structures. A movement along this path would translate to a graduated, rather than a uniform fee structure. In view of the minimal amount of car rental turnover at some of the smaller airports, a move to the introduction of an annual flat fee at such airports may warrant consideration on the ground of possible administrative savings.

On-airport operators currently have a number of constraints placed upon them, notably their inability to set rates on-airport which differ from rates at non-airport locations. This is seen as an unnecessary restriction and appears to arise out of a concern that operators will establish a higher rate at airports compared to non-airport locations. The competitive nature of airport rentals, coupled with the advertising stand of national operators, seems to obviate the need for this constraint. In high cost locations, such a pricing constraint may militate against operators serving marginal locations, with foregone opportunities for government revenue, operator sales and potential car rental users.



## APPENDIX I HISTORICAL DEVELOPMENTS

Significant events in the development of the Australian car rental industry are highlighted below.

Mid-

- 1930s     White Star Line (later Bewglass Rent A Car) established in Northern Tasmania.
  
- 1947     AAA Self-Drive Cars Pty Ltd and later, Airport Rent A Car Pty Ltd, established by Mr Eric McIllree.
  
- 1953     The names Avis, Hertz, National and Budget registered in Australia by Mr McIllree.
  
- 1955     Avis Australia established by Mr McIllree, and acquired the business of Airport Rent A Car.
  
- 1956     Kay Rent A Car established in Melbourne for the Olympic Games.
  
- 1959     *Airports (Business Concessions) Act 1959* clearly establishes Commonwealth Government regulation of access to airports. Tender requirements leave Avis as sole operator at airports.
  
- 1961     After new tenders, Avis and Kay allowed to operate at Commonwealth airports.
  
- 1964     Kay withdraws from airports after failing to service all the required airports. Avis left as sole operator at airports.  
  
           Hertz International acquires name to establish Hertz Australia.
  
- 1965     Mr McIllree establishes Budget Rent A Car.
  
- 1967     Existing Commonwealth airport arrangements extended for two years.

- 1969      Avis granted right of sole operator at Commonwealth airports for ten-year period.
- 1974      Budget Rent A Car sold to Australian Guarantee Corporation (55 per cent) and Mr Robert Ansett (45 per cent).
- 1977      Kay buys Hertz and trades as Hertz.
- Thrifty Rent A Car established.
- Ansett Transport Industries seeks to buy Avis.
- TAA and Mayne Nickless purchase controlling interest in Hertz.
- 1978      Trade Practices Commission challenge to Ansett Transport Industries acquisition of Avis unsuccessful.
- 1979      Budget and Hertz gain the right to operate at all Commonwealth airports. Avis third operator at 11 airports.
- Introduction of flat rate pricing.
- 1980      TAA and Mayne Nickless take full control of Hertz.
- Ansett Transport Industries sells Avis to Burns, Philp and Co Ltd and Avis International.
- 1983      Budget Transport Industries acquires all remaining shares in Budget Rental Operations (operator of Budget Rent A Car System), from Australian Guarantee Corporation.
- 1984      Avis, Budget, Hertz and Thrifty gain access to all Commonwealth airports for a three-year period.
- Principals of Budget Transport Industries acquire control of Thrifty Rent A Car.
- 1986      Burns, Philp and Co Ltd sells its 50 per cent share in Avis to Avis Management (wholly owned subsidiary of Avis International), giving it full control.
- Hertz International acquires control of Hertz Australia.

**APPENDIX II RELEVANT SECTIONS OF THE AIRPORTS (BUSINESS CONCESSIONS)  
ACT 1959-1973**

**Leases and licences**

6. (1) The Minister may, on behalf of the Commonwealth-
- (a) grant leases and licences in respect of land within an airport on such terms and conditions, and subject to payment of such rent or other consideration, as the Minister thinks fit; and
  - (b) exercise any power or remedy of the Commonwealth in respect of any such lease or licence.
- (2) This section has effect notwithstanding anything contained in the *Lands Acquisition Act* 1955-1957.

**Prohibition on trading, etc, without authority**

7. (1) Except in accordance with an authority granted under the next succeeding section and the terms and conditions of that authority, a person shall not, within an airport, either personally or by his servant or agent, or as the servant or agent of another person
- (a) sell, for delivery within the airport, or supply, any goods or services;
  - (b) carry on, or solicit for, any business; or
  - (c) erect, display or distribute, or communicate by sound, any advertisement or public notice.

(Amended by No 93, 1966, s.3)

- (2) A person who contravenes the last preceding sub-section is guilty of an offence punishable, upon a first conviction, by a fine of not more than Two hundred dollars and, upon a second or subsequent conviction, by a fine of not less than One hundred dollars and not more than One thousand dollars.
- (3) Sub-section (1) of this section does not apply to or in relation to
  - (a) the making or performance, by an operator of air transport services, of contracts for the carriage of passengers or goods by air or for the carriage by that operator between the airport and any premises of that operator of passengers or goods that have been, or are to be, carried by that operator by air;
  - (b) the advertising, by an operator of air transport services, of those services or other transport services or of tourist facilities; or
  - (c) the sale or supply to the owner or operator of aircraft of goods or services required for the maintenance or operation of the aircraft or for use or consumption
    - (i) aboard the aircraft; or
    - (ii) at the airport by persons employed by him.

**Periods of Leases, etc**

- 11.(1) Subject to this section, a lease, licence or authority under this Act, other than a lease, licence or authority for purposes directly related to the operation of air services, shall not be granted
  - (a) for a period exceeding
    - (i) in the case of a building lease or an authority included in, or granted in relation to, such a lease - ninety-nine years; or
    - (ii) in any other case - twenty-one years; or
  - (b) except after tenders have been publicly invited or after public auction.

(2) Paragraph (b) of the last preceding sub-section does not apply in relation to a lease, licence or authority granted  
(a) for a period not exceeding three years; or

(b) in pursuance of an option of renewal.

*Source* Australia Parliament (1974).

### APPENDIX III THE REGIONAL SECTOR - A CASE STUDY OF TASMANIA

The level of Tasmanian tourist and transport related development provides the car rental industry with a high profile unmatched on the mainland. For example, with less than 3 per cent of the Australian population, Tasmania accounted for around 10 per cent of the total car rental industry turnover in 1986. The Tasmanian industry has centred on rentals to interstate visitors, usually for leisure/tourist purposes, using a small to medium size four cylinder vehicle as part of a fly-drive package arrangement. The emphasis for the industry generally, however, has been on the rental of Commodores and Falcons to people travelling for business purposes.

The renting of vehicles is an attractive proposition at holiday destinations such as Tasmania, given the intrinsic flexibility of this mode of travel and the short travel distances between tourist attractions. In addition, there are no regular rail passenger services operating and only limited competition from coaches and intrastate air travel. Private vehicles using the *Abel Tasman* ferry service between Melbourne and Devonport appear to provide the major competition for the rental industry, although operators have offered special rates to ferry passengers, encouraging car rental on arrival.

Tasmanian car rental industry turnover is estimated to have exceeded \$20 million in 1986. The two Commonwealth airports, Hobart and Launceston, produced a car rental turnover of \$8.8 million in 1986-87 or 10 per cent of total Commonwealth airport car rental turnover. In addition, the two non-Commonwealth airports, Devonport and Wynyard, had over 110 000 passenger arrivals in 1986, for which an additional turnover of some \$1.5 million is estimated.

#### OPERATORS

In all, the total number of operators in Tasmania in 1986 was estimated to be 39, with 62 service outlets and a rental fleet of over 2400 vehicles. The relatively large number of entry points for

interstate air travellers (Hobart, Launceston, Devonport and Wynyard), leads each of the national operators to maintain at least four outlets in order to offer a complete network for airport rentals.

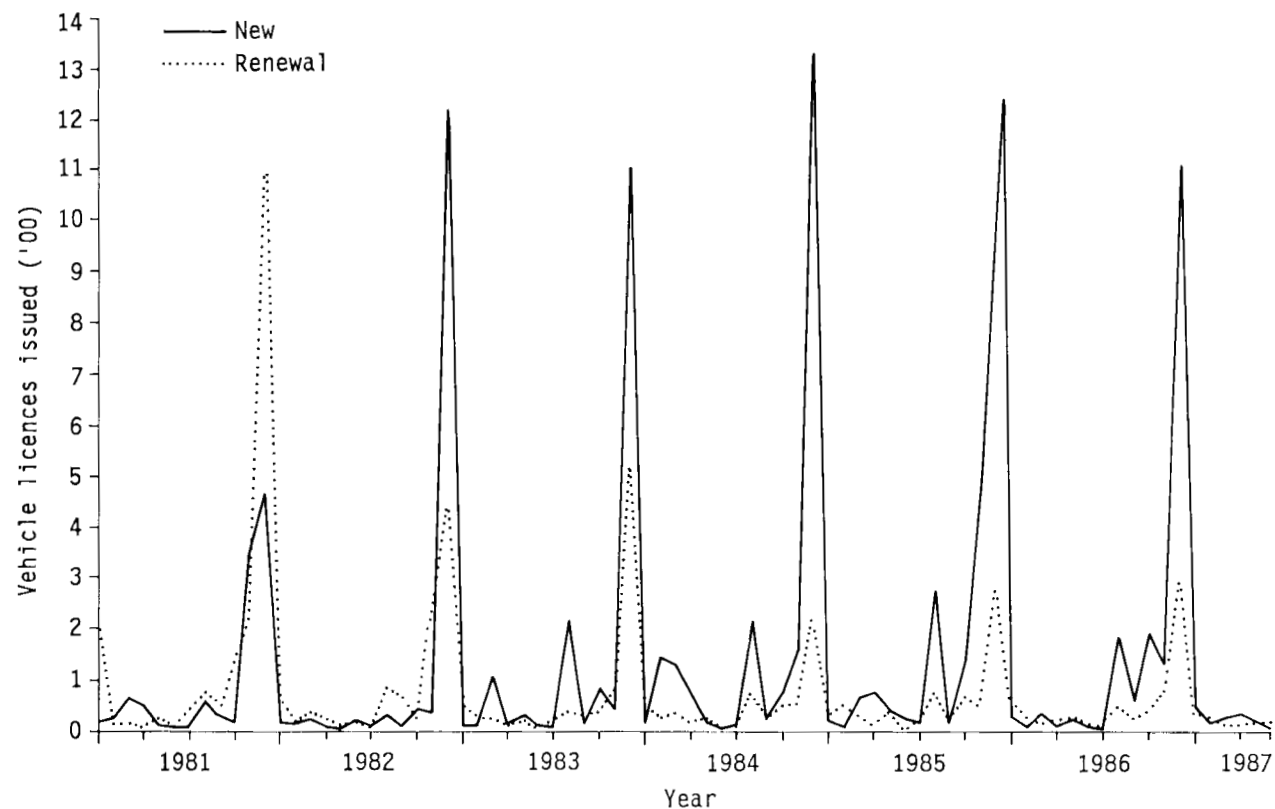
Two of the national operators use franchise arrangements in the Tasmanian market. AutoRent-Hertz has its origins in the amalgamation of a number of local operators in the late 1970s. After previously operating with Budget, Hertz negotiated an agreement with AutoRent in March 1984, allowing AutoRent to retain its identity while operating as the Hertz representative in the State. As part of Avis' rationalisation program, Avis Tasmania was franchised in late 1985. Both Budget and Thrifty are presently operated corporately.

Periods of intense rental demand require major fleet expansion, especially over the Christmas/New Year period. In order to service such periods, national operators have been encouraged to register new vehicles in Tasmania by relatively low compulsory third party insurance premiums on rental vehicles, and vehicle manufacturers' freight equalisation schemes that eliminate the extra cost of transporting new vehicles to areas such as Tasmania and north Queensland.

The exceptional fluctuation in registrations is illustrated in Figure III.1. The licences for hire and drive vehicles increase significantly in December of each year, with minor peaks during holiday periods. In some cases, Tasmanian licensees of national operators can, for a short period, add to their fleet with vehicles from the mainland.

While replacement policies differ between the major operators (10 to 15 months on standard vehicles), the distance travelled in this period averages 50 000 kilometres. Rental vehicles used solely in Tasmania travel a greater distance than on the mainland. Figure III.1 shows the changing relationship between new and renewed hire and drive vehicle licences in Tasmania. For example, during 1986-87, 75 per cent of the licences issued were new, and at the beginning of the season. Licences that are renewed tend to be those associated with second-tier operators who maintain vehicles for longer than 12 months, or certain recreational and luxury vehicles that have a rental life of longer than 12 months. Campervans and motorhomes are often kept for more than two years.

Fleet composition varies according to the particular time of year. Small four cylinder models are commonly used in package arrangements, and represent between 40 to 50 per cent of the general fleet, a higher proportion than on the mainland, where one-third of the fleet consists



Source Transport Tasmania (1987).

Figure III.1 Public vehicle licences issued: hire and drive, Tasmania, January 1981 to June 1987



of small cars. In winter, the business oriented Commodores and Falcons are more prevalent and overall average 30 to 40 per cent of the fleet. Utilisation rates tend to be more constant for the larger vehicles (around 70 per cent), while that for small vehicles drops significantly over the winter period.

General concern about the level of damage sustained by rental vehicles has led the major operators to introduce an irremovable insurance excess on damage to the vehicle of \$250 on sealed roads and \$500 on unsealed roads. Estimates of the cost of vehicle damage range around 5 per cent of revenue.

## RENTAL RATES

In a tourist destination such as Tasmania, up to four different rate periods over a year may be used, depending on the particular operator and on whether the rental is part of a wider travel arrangement. The winter rate period begins in late March, lasting until mid-September, followed by spring rates until mid-December and peak summer rates, finishing at the end of January. A further rate period to capture Easter and the holiday traffic then runs until the end of May. These pricing periods generally conform with Tasbureau's rate seasons, because of the heavy use of rental vehicles in fly-drive and sea-drive packages arranged by Tasbureau.

The multiplicity of rates does not allow any useful statistical averages of rental rate variation between periods to be established. Instead, specific examples are presented to indicate seasonal price variations in a tourist orientated market. During 1986-87, passengers on the *Abel Tasman*, booking a Thrifty six cylinder sedan for seven or more nights, were charged \$46 per night (including collision damage waiver fee) in spring, \$53 in the peak summer season and \$51 in the autumn period. Thrifty's Sydney and Melbourne standard rates at that time were \$70 per day (including collision damage waiver fee) for the same category of vehicle.

Similarly, Tasbureau, in its 'Holiday Extras' program for 1987-88, has arranged rental vehicles as part of a holiday option, with four different rate periods operating. Using as a basis two nights/three days, spring rates increase by 17 per cent over winter rates, peak summer rates 44 per cent above winter rates and autumn 27 per cent above the previous winter rates. Between April and August 1986 (off-peak season), Avis Tasmania was offering visitors a rate of \$30 per day on a Falcon/Commodore. This was 48 per cent below the comparable mainland rate of \$58.

## **AIRPORT SECTOR**

In 1986-87, AutoRent-Hertz maintained the largest share of Tasmanian Commonwealth airport car rental turnover with 37 per cent, followed by Budget with 29 per cent and Avis with 28 per cent (see Table III.1).

The dominant position of Launceston in car rental gross turnover (due to its role as a fly-drive gateway) and the extent of AutoRent-Hertz' share at this airport, accounted for most of the overall turnover at Tasmanian Commonwealth airports. AutoRent-Hertz and Avis had marketing arrangements with the major domestic airlines, enabling the two operators to perform relatively well at Launceston airport. This is in contrast with Hobart airport, where fly-drive packages were less significant and both Budget and AutoRent-Hertz accounted for a similar share of business (34 per cent).

## **DEMAND**

A study by the Tasmanian Department of Tourism (1985) revealed that the main form of transport used by tourists in Tasmania were rental cars or campervans, used by approximately 32.3 per cent of visitors. This figure exceeded the 30.3 per cent who used a vehicle provided by friends or relatives, the 12.6 per cent who used their own motor vehicle and the 9.5 per cent who preferred to use coach travel (see Table III.2). By comparison, in 1978, only 28.8 per cent of visitors used rental vehicles, with 34.5 per cent using friends' or relatives' vehicles.

Analysis relating to the contribution of tourism to the Tasmanian economy, indicates that income generated in 1984 by the expenditure of interstate and intrastate travellers as a whole was \$306 million in 1984 prices, or 7.4 per cent of the State's economic output (Hagger, McMaster & Madden 1986). Two-thirds of this income was generated by interstate visitors. It is against this background that Tasmanian car rental operators, in 1985-86, competed in a market of over 640 000 interstate and overseas passenger arrivals. Air passengers dominated arrival numbers (85 per cent), with the remainder travelling by ferry. Surveys of departing passengers have indicated that 55 to 60 per cent of travellers were visitors to the State, the remainder being Tasmanian residents. Three-quarters of adult visitors to Tasmania reported holiday travel as their main trip purpose.

## **Air passenger arrivals**

Table III.3 sets out quarterly interstate air passenger arrivals in the period 1979 to 1986. In 1986, 46 per cent of interstate air arrivals were through Hobart, 33 per cent through Launceston, 15 per cent through Devonport and 6 per cent through Wynyard.

TABLE III.1 CAR RENTAL TURNOVER SHARES: COMMONWEALTH AIRPORTS, TASMANIA, 1984-85 TO 1986-87  
(per cent)

<i>Airport</i>	<i>Avis</i>			<i>AutoRent-Hertz</i>			<i>Budget</i>			<i>Thrifty</i>		
	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>	<i>1984-85</i>	<i>1985-86</i>	<i>1986-87</i>
Hobart	15	21	22	42	34	34	31	36	34	12	9	10
Launceston	24	30	32	48	39	39	15	26	26	13	4	4
Wynyard <sup>a</sup>	18	26	..	35	37	..	38	27	..	8	9	..
Tasmania	21	27	28	45	37	37	22	30	29	12	6	6

a. 1985-86 percentage based on July only. From August 1985, no longer under the then Department of Aviation's control.

.. Not applicable.

Source Derived from Department of Transport and Communications (1987).

TABLE III.2 ADULT VISITORS TO TASMANIA: MAIN METHOD OF TRANSPORT,  
1978, 1981 AND 1984  
(per cent)

Main method of transport	1978	1981	1984
Friends' or relatives' vehicle	34.5	28.6	30.3
Rental car	26.1	29.7	29.2
Rental camper	2.7	3.3	3.1
Organised coach tour	11.4	11.9	9.5
Own motor vehicle	10.2	12.6	12.6
Public transport	8.1	7.6	9.9
Walking or hitch-hiking	2.6	2.7	2.4
Bicycle	0.3	0.4	0.4
Other	4.2	3.4	2.8
All adults	286 536	306 671	274 344

Source Department of Tourism (1985).

TABLE III.3 INTERSTATE AIR PASSENGER ARRIVALS<sup>a</sup>: TASMANIA, 1979 TO  
1986  
( '000)

Quarter	1979	1980	1981	1982	1983	1984	1985	1986
March	144	149	148	146 <sup>b</sup>	137	139	155	161
June	119	124	115	125 <sup>b</sup>	119	130	150	119
September	112	118	110	105	106	107 <sup>c</sup>	117	115
December	139	136	122	123	131	132 <sup>c</sup>	143	144
Total	514	527	495	499	493	508	565	539

a. Reporting periods vary between airlines and figures include intrastate passengers carried by one of the major airlines.

b. Does not include East-West passengers on Wynyard and Devonport services.

c. Converted from revenue passengers to total passenger arrivals.

Note For the March quarter 1987, interstate passenger arrivals numbered 150 840.

Source Transport Tasmania (1987).

The Tasmanian car rental industry, unlike that of much of the mainland, is heavily involved in supplying vehicles for fly-drive packages. This close relationship between Commonwealth airport car rental gross turnover and interstate air passenger arrivals is evident from Figure III.2. From the low point in July, there is a steady increase to the August-September school holidays, a falling-off in November, followed by a sharp increase (60 to 70 per cent from November to January) over the Christmas holiday period. The fall in passenger arrivals after Christmas is arrested to some extent by Easter and the May school holidays, but passenger arrivals decline to their lowest point in July. It is possible that this pattern may change with the introduction of a four-term school year in most mainland states. While perhaps reducing the degree of seasonality, one set of holidays falling in late June-early July (mid-winter), however, would appear to be lost for Tasmanian tourism.

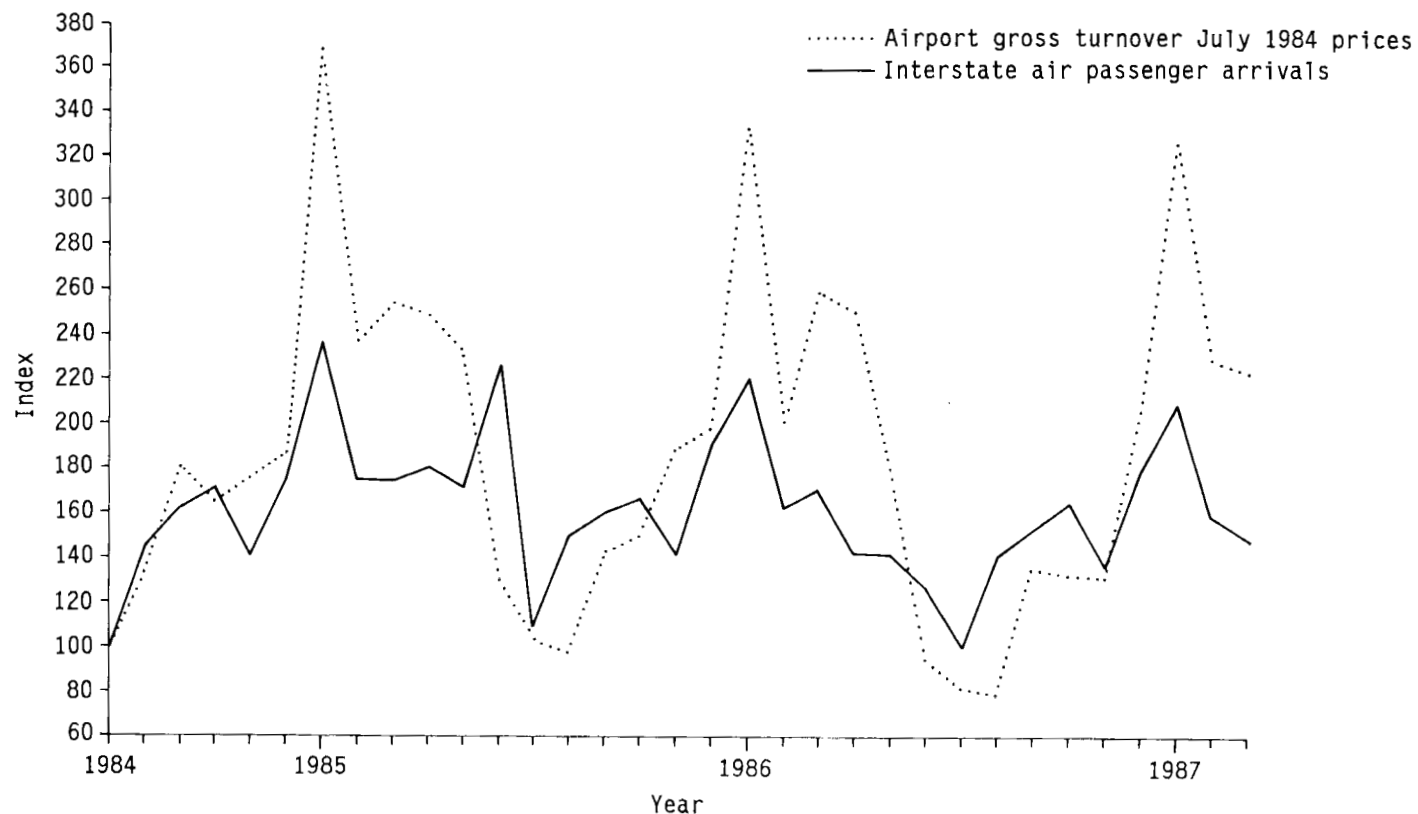
#### **Rental package arrangements**

A relatively high proportion of rental vehicle use in Tasmania is mainly associated with package arrangements. Three types can be identified: fly-drive, sea-drive and special itinerary. The relative shares of total packages are estimated at 70 per cent, 20 per cent and 10 per cent, respectively.

The total number of packages sold involving rental vehicles was around 110 000 in 1986. These were arranged either through Tasbureau (60 per cent) or the domestic airlines. As a wholesaler, Tasbureau operated a rental pool drawing 30 per cent of its requirements from each of the three main operators and 10 per cent from Thrifty. The type of vehicles used in packages were usually the medium and small four cylinder models. Operators provided vehicles to Tasbureau at rates generally 30 to 40 per cent below standard rates, although this varied according to the time of year.

Rental operator marketing arrangements with airlines provided an additional avenue for supplying vehicles in fly-drive packages. As with the preferred product arrangement between national operators and airlines on the mainland, airline-organised packages for Tasmania tended to use the preferred rental operator to supply the vehicle for the package.

Over the peak summer period in 1986-87, there were 3000 rental vehicles in the State, 80 per cent of which were in use as part of a package. Launceston is the major pick-up and drop-off location for fly-drive rental vehicles, with northern Tasmania dominating the southern rental business on a three-to-one basis.



Sources Derived from Department of Transport and Communications (1987), Transport Tasmania (1987).

Figure III.2 Index of Commonwealth airport car rental turnover (constant July 1984 prices) and interstate air passenger arrivals: Tasmania, July 1984 to March 1987

Indications are, that the average distance travelled in a package holiday was higher than for non-package rentals. For the seven night packages, average distance travelled was generally 240 kilometres per day, while on 13 night packages the average distance decreased to 150 kilometres per day.

#### **RECENT DEVELOPMENTS**

The demand for car rentals in Tasmania is affected by both internal and external factors. Flexibility in pricing and the cost of rentals and rental packages is as important to the industry's competitiveness as is Tasmania's performance in attracting tourists.

A contraction in the number of tourist arrivals since 1985 has slowed the rate of growth of the Tasmanian tourist industry. An indication of this decline is provided in Table III.3. It can be attributed to greater competition from other States and countries in the Asia-Pacific region, a relative decline in the standard of visitor facilities in comparison with the mainland, and a diminished share of the increase in the number of international visitors. These visitors appear more likely to holiday in warm rather than temperate areas of Australia, preferring to see such attractions as central Australia and the Great Barrier Reef. Of the main attractions listed in the 1985 International Visitor Survey (Australian Tourist Commission 1986) Port Arthur (the only Tasmanian attraction listed) had the lowest percentage, with 2 per cent of international visitors surveyed having visited this attraction.

Fly-drive packages have been one of the sectors most affected by the downturn in business, up to a 30 per cent decline in volume over the last two years (Department of Tourism, pers. comm. 1987). This can in part be attributed to an 18 to 20 per cent price rise between Christmas 1986 and the New Year and to those prices quoted for Christmas 1987 and the New Year, making Tasmanian holiday packages more expensive relative to other holiday destinations.

APPENDIX IV CAR RENTAL RATES: TASMANIA, 1965 TO 1986



TABLE IV.1 CAR RENTAL RATES: TASMANIA, 1965 TO 1978

Year and operator	Vehicle type and rate						Miles <sup>a</sup>	
	Small		Medium		Large			
	Cents		Cents		Cents		Minimum per day	Cost per 100 <sup>b</sup>
	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>		
1965 (Oct)								
Avis	1.50	10	2.00	10	3.00	10	..	13.00
Budget	0.50	10	na	na	1.60	10	30	11.60
Kay	1.00	10	na	na	3.00	10	30	13.00
1966 (Feb)								
Avis	1.50	10	2.00	10	3.00	10	..	13.00
Budget	0.50	10	na	na	1.00	10	30	11.00
Kay	0.10	10	na	na	3.00	10	30	13.00
1966 (Oct)								
Avis	2.25	10	2.75	10	4.00	10	..	14.00
Budget	1.75	10	2.25	10	4.00	10	30 <sup>c</sup>	14.00
Kay	1.00	10	na	na	3.00	10	30	13.00
1967 (Feb)								
Avis	2.25	10	2.75	10	4.00	10	..	14.00
Budget	1.75	10	2.25	10	4.00	10	30	14.00
Kay	1.75	10	na	na	4.50	10	30	14.50
1967 (Oct)								
Avis	2.25	10	2.75	10	4.00	10	..	14.00
Budget	1.75	10	2.25	10	4.00	10	30 <sup>c</sup>	14.00
Hertz	na	na	2.75	10	4.50	10	..	14.50
Kay	1.75	10	na	na	4.50	10	30	14.50
1968 (Feb)								
Avis	2.25	10	3.25	10	5.00	10	..	15.00
Budget	2.25	10	2.25	10	4.00	10	30 <sup>c</sup>	14.00
Hertz	2.75	10	na	na	4.50	10	..	14.50
Kay	1.75	10	na	na	4.50	10	30	14.50

TABLE IV.1 (Cont.) CAR RENTAL RATES: TASMANIA, 1965 TO 1978

Year and operator	Vehicle type and rate							Miles <sup>a</sup>	Cost per 100 <sup>b</sup>
	Small		Medium		Large				
	Cents		Cents		Cents				
	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Minimum per day		
1968 (Oct)									
Avis	3.00	10	4.00	10	5.50	10	..	15.50	
Budget	2.50	10	3.50	10	5.00	10	..	15.00	
Hertz	2.75	10	3.25	10	5.00	10	..	15.00	
Kay	2.50	10	na	na	5.50	10	30	15.50	
1969 (Feb)									
Avis	3.00	10	4.00	10	5.50	10	..	15.50	
Budget	3.00	10	3.00	10	5.00	10	..	15.00	
Hertz	3.25	10	4.00	10	5.00	10	..	15.00	
Kay	2.50	10	na	na	5.50	10	30	15.50	
1969 (Oct)									
Avis	3.00	10	4.00	10	5.50	10	..	15.50	
Budget	2.00	10	3.00	10	5.00	10	..	15.00	
Hertz	3.50	10	na	na	5.00	10	..	15.00	
Kay	na	na	na	na	na	na	..	na	
1970 (Feb)									
Avis	3.50	5	na	na	na	na	..	na	
Hertz	3.50	10	na	na	5.00	10	..	15.00	
Kay	1.00	10	na	na	7.00	12	..	19.00	
1970 (Oct)									
Avis	3.50	5	na	na	na	na	..	na	
Hertz	3.50	10	na	na	5.00	10	..	15.00	
Kay	3.00	5	na	na	5.50	12	..	17.50	
1971 (Feb)									
Avis	4.50	5	na	na	na	na	..	na	
Hertz	6.00	6	na	na	8.00	8	..	16.00	
Kay	3.00	5	na	na	5.50	12	..	17.50	

TABLE IV.1 (Cont.) CAR RENTAL RATES: TASMANIA, 1965 TO 1978

Year and operator	Vehicle type and rate						
	Small		Medium		Large		Miles <sup>a</sup>
	Cents		Cents		Cents		Cost
	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Minimum per day per 100 <sup>b</sup>
1971 (Oct)							
Avis	4.50	5	na	na	na	na	.. na
Hertz	5.00	10	na	na	7.00	10	.. 17.00
Kay	4.00	na	na	na	na	na	.. na
1972 (Feb)							
Avis	4.50	5	na	na	na	na	.. na
Hertz	5.00	10	na	na	7.00	10	.. 17.00
Kay	4.00	5	na	na	na	na	.. na
1972 (Oct)							
Avis	6.50	na	na	na	na	na	.. na
Hertz	5.00	10	na	na	na	na	.. na
Kay	5.50	5	na	na	na	na	.. na
1973 (Feb)							
Avis	6.50	na	na	na	na	na	.. na
Hertz	5.00	10	na	na	na	na	.. na
Kay	5.50	10	6.50	10	8.00	10	.. 18.00
1973 (Oct)							
Avis	6.50	na	na	na	na	na	.. na
Hertz	5.00	10	na	na	na	na	.. na
Kay	6.00	5	6.50	10	8.00	10	.. 18.00
1974 (Feb)							
Avis	6.50	na	na	na	na	na	.. na
Hertz	6.00	na	na	na	na	na	.. na
Kay	5.00	10	6.00	10	8.00	10	.. 18.00
Budget (Jun)	6.00	10	7.00	10	8.50	10	.. 18.50

TABLE IV.1 (Cont.) CAR RENTAL RATES: TASMANIA, 1965 TO 1978

Year and operator	Vehicle type and rate							Miles <sup>a</sup>	Cost per 100 <sup>b</sup>
	Small		Medium		Large				
	Cents		Cents		Cents				
	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Daily \$	per mile <sup>a</sup>	Minimum per day		
1974 (Oct)									
Avis	6.50	na	na	na	na	na	..	na	
Kay	6.00	10	7.00	10	8.00	10	..	18.00	
1975 (Feb)									
Avis	6.50	na	na	na	na	na	..	na	
Kay	6.00	10	7.00	10	8.00	10	..	18.00	
Budget (Apr)	6.50	7	na	na	na	na	..	na	
1975 (Oct)									
Avis	9.00	na	na	na	na	na	..	na	
Budget	6.50	7	na	na	na	na	..	na	
Kay	8.00	9	8.50	9	10.00	10	..	20.00	
1976 (Feb)									
Avis	6.50	na	na	na	na	na	..	na	
Budget	6.50	7	na	na	na	na	..	na	
Kay <sup>d</sup>	23.00	6	25.00	7	26.00	7	..	26.00	
Letz	3.50	6	na	na	na	na	..	na	
1976 (Oct)									
Avis	10.00	12	na	na	na	na	..	na	
Budget	8.00	12	na	na	na	na	..	na	
Kay	18.95	..	20.95	..	22.95	..	..	22.95	
Letz	na	na	na	na	na	na	..	na	
1977 (Feb)									
Avis	10.00	12	12.00	13	13.00	13	..	26.00	
Budget	8.00	12	na	na	na	na	..	na	
Kay	18.95	..	22.95	..	23.95	..	..	23.95	
Letz	4.00	7	na	na	na	na	..	na	

TABLE IV.1 (Cont.) CAR RENTAL RATES: TASMANIA, 1965 TO 1978

Year and operator	Vehicle type and rate						
	Small		Medium		Large		Miles <sup>a</sup>
	Cents		Cents		Cents		Cost
	Daily	per \$ mile <sup>a</sup>	Daily	per \$ mile <sup>a</sup>	Daily	per \$ mile <sup>a</sup>	Minimum per day per 100 <sup>b</sup>
1977 (Oct)							
Avis	11.50	13	12.50	14	13.50	14	.. 27.50
Budget <sup>f</sup>	19.00	12	20.00	12	22.00	13	.. 22.00
Kay-Hertz	11.00	13	12.50	14	13.50	14	.. 27.50
Letz	5.50	9	7.00	10	8.00	12	.. 20.00
1978 (Feb)							
Avis	11.50	13	12.50	14	13.50	14	.. 27.50
Budget	10.67	10	11.17	10	12.17	10	.. 22.17
Kay-Hertz	11.00	13	12.50	14	13.50	14	.. 27.50
Letz	9.50	12	10.00	12	11.00	13	.. 24.00
1978 (Oct)							
Avis	12.00	14	14.00	15	16.00	16	.. 32.00
Budget	9.00	12	11.00	13	12.00	14	.. 26.00
Hertz	11.50	14	14.00	15	15.50	16	.. 31.50
Letz	9.00	11	11.00	12	12.00	13	.. 25.00
Thrifty	8.00	10	9.00	10	12.00	10	.. 22.00

a. 1975 to 1978 figures refer to kilometres and cents per kilometre.

b. On a large vehicle.

c. On a small vehicle.

d. Flat rate until 250 kilometres per day reached.

f. Includes 100 kilometres per day free.

na Not available.

.. Not applicable.

Sources Budget rate card (various Years). Tasmanian Tourist Bureau (1986).

TABLE IV.2 CAR RENTAL RATES: TASMANIA<sup>a</sup>, 1979 TO 1986

Year and operator	Vehicle type and rate per day		
	Small	Medium	Large
1979 (Feb)			
Avis	34.50	36.50	37.50
Budget	26.00	29.00	30.00
Hertz	31.00	34.00	35.00
Letz	26.00	28.00	29.00
Elite (Thrifty)	20.00	25.00	27.00
1979 (Oct)			
Avis	34.50	36.50	37.50
Budget	20.00	23.00	25.00
Hertz	34.50	36.50	37.50
Letz	22.00	24.00	25.00
Elite (Thrifty)	20.00	22.00	27.00
1980 (Feb)			
Avis	31.00	33.00	35.00
Budget	23.00	26.00	28.00
Hertz	24.00	30.00	34.00
Letz	na	na	na
1980 (Oct)			
Avis	29.00	39.00	41.00
Budget	25.00	na	41.00
Hertz	28.00	35.00	41.00
Letz	27.00	29.00	30.00
Thrifty	24.00	26.00	29.00
1981 (Feb)			
Avis	29.00	39.00	41.00
Budget	27.00	32.00	37.00
Hertz	28.00	35.00	41.00
Thrifty	24.00	26.00	29.00
1981 (Oct)			
Avis	29.00	35.00	39.00
Budget	28.00	na	34.00
Hertz	25.00	28.00	30.00
Thrifty	24.00	27.00	30.00

TABLE IV.2 (Cont.) CAR RENTAL RATES: TASMANIA<sup>a</sup>, 1979 TO 1986

Year and operator	Vehicle type and rate per day		
	Small	Medium	Large
1982 (Feb)			
Avis	31.00	38.00	41.00
Budget	30.00	na	36.00
Hertz	32.00	39.00	44.00
Thrifty	25.00	28.00	31.00
1982 (Oct)			
Avis	35.00	42.00	46.00
Budget	32.00	na	38.00
Hertz	30.00	33.00	36.00
Thrifty	26.00	28.00	33.00
1983 (Feb)			
Avis	35.00	42.00	46.00
Budget	34.00	39.00	44.00
Hertz	32.00	35.00	38.00
Thrifty	26.00	28.00	33.00
1983 (Oct)			
Avis	35.00	42.00	46.00
Budget	36.00	41.00	46.00
Hertz	na	na	na
Thrifty	27.00	29.00	33.00
1984 (Feb)			
Avis	35.00	42.00	46.00
Budget	na	na	na
Hertz	35.00	43.00	48.00
Thrifty	31.00	33.00	37.00
1984 (Oct)			
Avis	35.00	39.00	49.00
Budget	39.00	43.00	48.00
Hertz	33.00	37.00	42.00
Thrifty	35.00	37.00	44.00
1985 (Feb)			
Avis	39.00	43.00	48.00
Budget	39.00	43.00	48.00
Hertz	40.50	44.90	49.90
Thrifty	37.00	39.00	46.00

TABLE IV.2 (Cont.) CAR RENTAL RATES: TASMANIA<sup>a</sup>, 1979 TO 1986

<i>Year and operator</i>	<i>Vehicle type and rate per day</i>		
	<i>Small</i>	<i>Medium</i>	<i>Large</i>
1985 (Oct)			
Avis	39.00	43.00	48.00
Budget	42.00	48.00	55.00
Hertz	41.00	45.00	49.00
Thrifty	29.00	38.00	44.00
1986 (Feb)			
Avis	42.00	48.00	55.00
Budget	42.00	48.00	55.00
Hertz	42.00	48.00	55.00
Thrifty	38.00	43.00	49.00
1986 (Oct)			
Avis	47.00	57.00	65.00
Budget	47.00	57.00	65.00
Hertz	45.00	55.00	63.00
Thrifty	39.00	48.00	54.00

a. 1986 rates are based on mainland rate cards.

na Not available.

*Sources* Avis, Budget, Hertz and Thrifty rate cards (various years).  
Tasmanian Tourist Bureau (1986).



APPENDIX V COMMONWEALTH AIRPORT CONCESSIONS, 1979 TO 1984

TABLE V.1 COMMONWEALTH AIRPORT CONCESSIONS, 1979 TO 1984

<i>Airport Location</i>	<i>Value (\$)</i>	<i>Concessionaire</i>
National one	8 014 435	Kay Rent A Car Pty Ltd (trading as Hertz)
National two	3 167 060	Budget Rent A Car System Pty Ltd
Brisbane	137 060	Avis Rent A Car System Pty Ltd
Cairns	43 045	Avis Rent A Car System Pty Ltd
Coolangatta	140 400	Trans Rent A Car (trading as Thrifty Rent A Car),
Mackay	20 245	Avis Rent A Car System Pty Ltd
Mount Isa	22 185	Avis Rent A Car System Pty Ltd
Rockhampton	17 850	Avis Rent A Car System Pty Ltd
Townsville	27 725	Avis Rent A Car System Pty Ltd
Sydney	168 930	Avis Rent A Car System Pty Ltd
Melbourne	173 560	Avis Rent A Car System Pty Ltd
Bankstown	2 480	Sydney Letz Pty Ltd (trading as Letz Rent-A-Car)
Broken Hill	720	Sydney Letz Pty Ltd
Coffs Harbour	2 480	Sydney Letz Pty Ltd
Wagga Wagga	4 960	Sydney Letz Pty Ltd
Tamworth	4 960	Sydney Letz Pty Ltd
Essendon	2 200	Ray Thorpe Nominees Pty Ltd (trading as Letz Rent A Car)
Moorabbin	2 200	Ray Thorpe Nominees Pty Ltd
Devonport	16 200	Thrifty/Elite Rental Cars (trading as Thrifty Rent A Car)

TABLE V.1 (Cont.) COMMONWEALTH AIRPORT CONCESSIONS, 1979 TO 1984

<i>Airport location</i>	<i>Value (\$)</i>	<i>Concessionaire</i>
Hobart	61 500	Thrifty/Elite Rental Cars
Launceston	100 850	Avis Rent A Car System Pty Ltd
Wynyard	34 800	Thrifty/Elite Rental Cars
Adelaide	73 500	Thrifty Rent A Car Pty Ltd
Broome	10 500	Letz Rent A Car Systems Pty Ltd
Carnarvon	1 500	Letz Rent A Car Systems Pty Ltd
Derby	5 000	Letz Rent A Car Systems Pty Ltd
Kalgoorlie	6 250	Letz Rent A Car Systems Pty Ltd
Perth	75 000	ASP Pty Ltd (Thrifty Rent A Car), c/- A E Dry & Co (trading as Avaca Hire Cars)
Port Hedland	15 380	Avis Rent A Car System Pty Ltd
Canberra	54 000	City Auto Rentals (trading as Thrifty Rent A Car)
Alice Springs	10 360	Avis Rent A Car System Pty Ltd
Darwin	21 000	Measey Investments Pty Ltd, c/- R.V. Lowry and Associates (trading as Letz Rent A Car)
Kingscote	4 530	Abacar Rental Cars

*Source* Commonwealth of Australia Gazette (1979).

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### Abbreviations

ABS        Australian Bureau of Statistics  
AGPS       Australian Government Publishing Service  
BTE        Bureau of Transport Economics

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## ABBREVIATIONS

ABS	Australian Bureau of Statistics
ASCOT	Australian Standing Committee on Tourism
ATC	Australian Tourist Commission
BIE	Bureau of Industry Economics
BTE	Bureau of Transport Economics
FLR	Federal Law Reports
IVS	International Visitor Survey
TAA	Trans Australian Airlines
TPC	Trade Practices Commission