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External Analysis of Avis Car Rental: Impact of External Factors on Business Operations

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Overview of Strategic Analysis

Strategic Analysis involves outcome focused thinking, while understanding business context, business challenges, and the complexities of the internal and external environment (Hill, 2020). This creates the scope of the transformation, articulates the business need/outcome, and shapes the agenda for transformation (IIBA, 2023). In this process, there are three steps, analysis, formulation, and implementation (Hill, 2020). Without these steps, a business will not be effectively operating in its market. In the first step analysis, according to the small business administration, analysis helps you learn from businesses competing for your potential customers. This is key to defining a competitive edge that creates sustainable revenue (SBA, 2023). Formulation includes an assessment of the environment in which the organization operates and then creating a strategy on how the organization will operate and compete (CFI, 2022). With formulation businesses are more effective in creating a business process and plan. The final step of the strategic analysis process is implementation. Implementation is the deployment of an organization's resources to meet the desired objectives (CFI, 2022). With these three steps, a company can achieve success in its business endeavors.

Overview of External Analysis

The External Analysis examines opportunities and threats that currently exist in the local environment (Basco, UCF, 2021). To examine the external environment, companies can use tools such as PESTEL, industry life cycle, and Porter's 5-Forces. Using these tools, companies can be more alert about changes in their market and rivals. If a company does not have an adequate understanding of its external environment, changes in the economy can have a detrimental effect on its revenues.

Macro-Environment Analysis (PESTEL)

The purpose of analyzing the macro-environment is to examine market conditions to create a business strategy for the organization to position itself in the global economy (Reznowski, 2022). This will lead to a business adopting the strategic stance that will allow it to prosper (Max w/ Marketing-Insider, 2022). Using a standard marketing tool known as PESTEL, companies can effectively examine the macro-environment. PESTEL stands for political, economic, socio-demographic, technological, legal, and environmental factors.

Political Factors

Political factors can directly affect a business's daily operations (Papia, 2020). "The government and the political situation of a country are critical to analyze while doing business. Even a slight change in political circumstances can make the business environment vulnerable" (Papia, 2020).

A major political factor that is currently helping all industries are favorable political relations with Mexico and other trade partners in North and South America. Open and free trade between bordering nations will provide shorter supply chains, more customers, and reduced expenses. In 2021, Mexico was the second-largest source of foreign crude oil to the United States as well as the top destination for U.S. petroleum product exports and U.S. natural gas (Bureau of Western Hemisphere Affairs, 2020). Having decreased oil costs related to our relations with Mexico provides the United States with the benefit of having decreased transportation costs. Decreased transportation costs will allow businesses to reduce prices to compete for market share or increase their profit margins through reduced costs. Supporting favorable political relations with Mexico will provide industries in both countries with the assurance they need to trade into the foreseeable future.

Economic Factors

The economic performance of a country, as well as an organization, is determined by the economic factors of that country (Papia, 2020). Some economic factors include, the growth of the economy, inflation rate, disposable income of the customers, interest rate, and rate of unemployment (Papia, 2020). For example, when a country is going through inflation, the unemployment rate decreases as the relationship between inflation and unemployment is inverse. When inflation goes up, the unemployment rate goes down (Papia, 2020).

Disposable personal income is a significant indicator of an economy's health (Statista Research Department, 2022). When there is an increase in disposable personal income, consumers have more buying power. Companies will experience higher volumes of sales. This act will allow companies to hire more employees thus permitting companies to expand into new markets. After experiencing a higher volume of sales, companies will have to modify other areas in their operations. With an influx in sales, companies will see increased costs in raw materials and transportation.

Sociocultural Factors

Businesses are required to pay attention to sociocultural factors that can influence their industry. "Social factors include demographics, consumer attitudes, opinions, and buying patterns; population growth rate and employment patterns; socio-cultural changes; ethnic and religious trends; living standards" (Reznowski, 2022). "When an organization enters a new market, paying attention to sociocultural factors play a vital role when it comes to selecting the right marketing mix for the organization" (Papia, 2020).

An important sociocultural factor that businesses should pay attention to are their consumers desires for experience (Peterdy, 2022). During the Covid-19 pandemic, consumers were isolated and unable to socialize and experience life (Statista Research Department, 2022). Today, people desire social interaction in all its glory (Statista Research Department, 2022). Looking for new experiences, consumers are wanting products that are innovative and exciting (Statista Research Department, 2022). Companies should be aware of this behavior and create products and new experiences which in turn will increase revenues. In summary, consumers' preferences for experience can impact various aspects of business costs by requiring investments in marketing, finance, accounting, operations, logistics, HR, and IT to deliver exceptional customer experiences. These costs may include expenses related to technology, employee training, data analysis, production processes, and other resources needed to meet customer demands and create memorable experiences (Statista Research Department, 2022).

Technological Factors

Technology is always changing (Fade, 2021). Companies are producing and engineering innovative, revolutionary new technology (Fade, 2021). In the past ten years, companies have confidently expressed to the world how important artificial intelligence, technology infrastructure, automation, and virtual reality are to accelerating business performance and customer experiences (Fade, 2021). Companies who incorporate new technology into their business will experience a positive competitive edge compared to those who do not. Incorporating new technology will provide businesses with great advantages. To list a few, companies will see better efficiency, innovative approaches, and reduced costs. This will in turn drive potential revenues up.

Virtual reality is the underdog in new technology that will have a major impact to business's daily operations and training/education of employees and is becoming more prevalent in the technology industry (Fade, 2021). "Virtual reality is expected to grow as an industry from

$6.1 billion in 2021 to as surprising $27.9 billion by 2025, largely due to the impact of Covid-19" (Fade, 2021). According to Christopher Dede, a Harvard School of Education professor whose work focuses on applications of VR for education, "The future of VR is being immersed into an environment blending physical and digital worlds, where users interact via a headset, their computer, or their mobile device to role play with an avatar or learn a new skill." (Meister, 2021). A 2020 PwC study suggested that at scale, VR can be significantly more cost effective than traditional soft skills training options, finding that employees completed VR programs up to four times faster than in-person trainings, and 1.5 times faster than e-learning programs — in large part because the immersive experience made it easier for learners to stay focused. The study also found that employees who completed VR training felt almost four times more emotionally connected to the content than classroom learners did, and more than twice as connected as e-learners, illustrating the huge impact that VR can make (Meister, 2021). Virtual reality can also help companies who specialize in creating complex product configurations and construction projects. Employees visualizing their products/plans in real space allows them to ensure the configuration meets customer needs and is done correctly. The initial funding for virtual reality technology will be expensive for firms to implement into their programs (Fade, 2021). However, over time they will pay themselves off due to the decrease time and costs of personally training employees (Fade, 2021).

Ecological Factors

According to an article by Kyle Peterdy in 2022, "environmental factors emerged as a sensible addition to the original PESTEL framework as the business community began to recognize that changes to our physical environment can present material risks and opportunities for organizations" (Peterdy, 2022). Environmental factors that businesses should consider are their carbon footprint, climate change impacts and awareness of impact of natural resources (Peterdy, 2022). These ecological factors can pose a threat to the costs and profitability of a company.

In recent years, industries have been attempting to shift from fossil fuels to renewable resources (U.S. Department of Energy, 2023). In order to support this change and expand into consumer goods, governments and environmentalists have promoted the transition to electric vehicles (U.S. Department of Energy, 2023). Electric vehicles can be powered by coal, natural gas, and renewable energy (U.S. Department of Energy, 2023). There are multiple methods to collect renewable energy, but perhaps the most popular are hydropower, solar energy, and wind energy (U.S. Department of Energy, 2023). While electric vehicles have significant emission benefits over conventional vehicles, substantial infrastructure is required to be built for electric vehicles which will drive up costs for businesses specializing in the electric vehicle industry.

Legal Factors

Businesses are required to adhere to legal procedures set by the national and state governments. When considering legal factors in a PESTEL analysis, companies need to recognize that laws are implemented to help businesses, not limit them. According to Berger Harris, LLP and Jimmy Lewin, the purpose of laws is to establish standards, maintain order, resolve disputes, and protect liberties and rights (Lewin, 2016). A number of legal factors must be considered in the PESTEL analysis including tax policy, regulations and online consumer safety and protection laws.

The Federal Trade Commission is the chief federal agency protecting consumers' privacy and security since the Fair Credit Reporting Act in 1970 (Federal Trade Commission, 2013). The Fair Credit Reporting Act regulates the collection of customers' credit information and access to their credit reports (Kagan, Julia, Investopedia). This regulation of information is more important today than it was in the 1970's. Today with businesses presence online, the sharing and distribution of consumers' information is easier to share and consumers' privacy is more susceptible to be violated (Federal Trade Commission, 2013). This administrates how the information is shared and addresses the fairness, accuracy, and privacy of the information collected (Federal Trade Commission, 2013). Online consumer safety is further protected by the Federal Trade Commission through law enforcement, policy initiatives, and consumer and business education to protect consumer safety (Federal Trade Commission, 2013). The FTC collects reports from consumers and conducts investigations, stopping unfair, deceptive and fraudulent business practices (Federal Trade Commission, 2013). Companies will be required to adhere to the laws and acts set forth from commissions such as the FTC. This in turn may drive up costs in lawsuits, attorney fees, and research. With the increased cost of R&D and production qualities to meet consumer safety standards, more liability insurance, new marketing materials to comply with the regulations, etc., companies may see a decrease in revenue.

Industry Analysis

According to Britannica, "an industry is group of productive enterprises or organizations that produce or supply goods, services, or sources of income" (Britannica, 2023). It is important for a business to analyze the industry that it is competing in. Each industry is different in terms of competition, technological changes, new businesses, average profitability and stronger demand and rising prices. A businesses success in analyzing their profit growth in an industry is to compare their overall performance relative to other industries and its successes in its industry (Hill, Schilling, Jones, 2020).

Industry Overview

The rental car industry is a segment of a larger sector, the services industry. When analyzing an industry, it is important to examine the industry's competitive structure. An industry can be in placed in four difference competitive structure forms, perfect competition, monopolistic competition, oligopoly or monopoly. The rental car industry fits best into the oligopoly competitive structure. An oligopoly features few large firms, some pricing power, distinguished products and features a high entry barrier for prospective businesses. Oil and gas, airlines, mass media, telecom and automobiles are the most common goods and services in this type of industry (Hayes, Investopedia). The rental car industry has a medium-high profit potential compared to other industries. According to Business Insights: Essentials, the total annual revenue for the passenger car rental industry in 2022 was $38,146,790,000 (Gale, Cengage). In conclusion, an oligopoly can impact costs by giving firms bargaining power over suppliers and pricing power over consumers. It can also impact revenues and overall market size by leading to market concentration, barriers to entry, and reduced innovation.

Key Drivers of Costs

Companies who partake in the rental car industry accrue many expenses related to their operations. In the rental car industry, companies will have to ensure their cars are consistently maintained, which requires labor. They also have to factor in logistical, fuel, marketing, insurance and distribution costs. Like businesses in other industries, accounting costs will be key drivers of costs as well.

Key Drivers of Revenues

Companies incur costs, but more importantly, they have the opportunity to earn revenues. Companies in the rental car industry make their revenues through customers' rental payments, fees, and membership fees for the company's services.

Industry Life Cycle Analysis

The industry life cycle refers to the evolution of an industry (WallStreetMojo Team, 2022). The five stages of an industry life cycle are emergence, growth, maturity, saturation, and decline (WallStreetMojo Team, 2022). The purpose of analyzing the current industry stage is to understand where the industry stands in its development and what its future growth prospects are (WallStreetMojo Team, 2022). This information is useful for businesses and investors to make informed decisions about investment and strategy (WallStreetMojo Team, 2022). The rental car industry appears to be in the maturity stage.

In the maturity phase of an industry life cycle, the market growth slows down and competition increases. This will lead to price wars and declining profit margins. Costs will go up as a result of this and businesses will need to invest more to maintain their market share (WallStreetMojo Team, 2022).

Product Life Cycle

In the maturity phase of an industry's life cycle, product innovation generally slows down as companies work to maintain their current position in the market rather than investing in new markets.

Process Life Cycle

While product innovation declines during the maturity phase, companies will turn to process innovations, improving their efficiency, and lowering costs. This is due to increased competition, decreased growth potential, and a resistance to change. The companies in this market have established industry practices and hold established relationships with suppliers and customers.

Industry Forces (Porter's 5-Forces) Analysis

Porter's 5-Forces serve as frameworks to evaluate and monitor an industry's environment noting potential industry profit constraints (CIMA, 2013). The threat of new entrants: This refers to the potential for new companies to enter the market and compete with existing firms (CIMA, 2013). The remaining Porter's 5-Forces are the threat of substitute products or services, the bargaining power of suppliers, the bargaining power of buyers, and finally the rivalry among existing competitors. For a force to be a high threat to industry profit potential it must be exerting significant pressure on firms in the industry, making it difficult for them to achieve profitability. In contrast, for a force to be a low threat to industry profit potential, it must tend to reduce the overall industry profit potential (by reducing overall industry revenues and/or increasing overall industry costs), while a force that is deemed a weak threat will tend to have less impact on overall industry profit potential. A weak force may be more readily navigated by industry participants through good strategic decision making.

***Threat of New Entrants*.**

The threat of new entrants, as defined by Michael Porter's Five Forces Model 2023, refers to the potential for new companies to enter the market and compete with existing firms. This can have a significant impact on the potential revenues and costs of all companies within the industry.

Regarding potential costs, the threat of new entrants can increase competition, leading to an increase in marketing and advertising expenses as companies strive to differentiate themselves and maintain market share. Additionally, established companies may also face increased labor costs as they try to retain key employees and prevent them from being poached by new entrants (Porter, 1980). The entry barriers for the rental car industry can be high due to the significant investments required to develop and implement the necessary technology and acquire the necessary licenses and permits to operate. These are all very expensive fixed costs that a new company will incur.

Regarding potential revenues, new entrants will face the threat of a potential loss of revenue to customers going to companies that have established technology, websites, and applications. Larger companies that have already been established in the market will have the advantage of economies of scale and the ability to invest in technology and software development. The desire to enter the industry to take a share of those profits is high, but the threat of new entrants is low due to the high cost of acquiring, implementing, and coordinating technology that is efficient, effective, and satisfactory to the consumer experience. All of the existing rental car companies have developed efficiencies and effectiveness with their technology.

Bargaining Power of Buyers.

The bargaining power of buyers refers to the ability of customers to influence the price and quality of the products or services offered by firms in the industry (CGMA, 2013). The rental car industry operates in a highly competitive market, and the bargaining power of buyers is a key factor that determines the potential revenues and costs of rental car companies. According to a report by Laura Bloom on Forbes, the rental car industry is driven by customer demand and customer preferences. The bargaining power of buyers is a critical factor that affects the revenue potential of rental car companies. If the bargaining power of buyers is high, then the customers have more leverage to negotiate the price and terms of the rental agreement. This may result in lower revenue for rental car companies as they may have to lower their prices to remain competitive. On the other hand, if the bargaining power of buyers is low, then rental car companies have more pricing power and can charge higher prices, resulting in higher revenues (Forbes, 2022).

The bargaining power of buyers also affects rental industry costs related to labor, marketing, technology, and accounting. The buying power of consumers enables industries to be pressured to reduce prices or provide higher-quality goods/services (CFI, 2022). If a company is unable to increase the price of its product, it should reevaluate its marketing and product development strategies (Garcia, Konsyse, 2022). Companies should focus on brand loyalty and product complements to retain their current customers. This will drive costs upwards for companies, but it is more cost effective than acquiring new customers, businesses will have repeat business from existing customers and they will have a competitive advantage over other businesses due to their high retention rate (Garcia, Konsyse, 2022).

In conclusion, the bargaining power of buyers has a significant impact on the rental car industry's potential revenues and costs. Rental car companies must be aware of the bargaining power of buyers and adjust their strategies accordingly to maximize their potential revenues and minimize their potential costs.

Bargaining Power of Suppliers.

The bargaining power of suppliers refers to the ability of suppliers to influence the price and quality of inputs used by firms in the industry (CGMA, 2013). When the bargaining power of suppliers is high, they will have the ability to charge higher prices for their goods and services, which can increase the costs for all companies in the industry. This can lead to decreased profitability and competitiveness for companies, as they are forced to pay more for the goods and services they need to operate. On the other hand, when the bargaining power of suppliers is low, companies have more negotiating power and can secure better prices for the goods and services they need. This can help to reduce costs and increase profitability for all companies in the industry (Nair, Harappa, 2021).

In terms of the rental car industry, the bargaining power of suppliers that offer car rental zoned land or property can have a major impact in terms of costs and revenue. In some locations, there is a limited supply of car rental zoned lands, which will skyrocket costs upwards for rental car companies. If this is the case, rental car companies can negotiate better terms to receive lower costs. The resulting impact of this force on the overall industry profit potential is that it will decrease because the overall industry potential costs increase and the overall industry potential revenues decrease.

Threat of Substitutes.

The threat of substitute products or services refers to the availability of alternative products or services that can satisfy customer needs in a certain industry (CGMA, 2013). In the rental car industry, the threat of substitutes is a significant factor that can impact the potential revenues and costs of a company. When the threat of substitutes is high, companies face increased competition from alternative products or services. This can result in reduced customer demand for their products or services and decreased potential revenues for all companies in the industry. On the other hand, when the threat of substitutes is low, companies have a greater advantage in terms of customer demand and potential revenues. This is because customers have fewer options to meet their needs and are more likely to choose the products or services offered by companies in the industry (Garcia, Konsyse, 2022).

According to Chris McGinnis with SFGATE, rental car companies are responding to Uber’s and Lyft’s increasing share of the ground transportation market by adding significant improvements to their vehicles and customer experience. These changes will drive up costs, but also customer retention and satisfaction.

Companies will need to invest in marketing and research and development efforts to maintain their competitive advantage and differentiate themselves from substitute products or services which will increase costs. In conclusion, the threat of substitutes can have a significant impact on the rental car industry, both in terms of potential revenues and potential costs. Companies that operate in this industry must be prepared to face increased competition from alternative transportation options and invest in marketing and innovation to differentiate themselves and maintain their competitive advantage (Garcia, Konsyse, 2022). The resulting impact of this force on the overall industry profit potential is that it will decrease because the overall industry potential costs increase and the overall industry potential revenues decrease.

Competitive Rivalry.

Rivalry among existing competitors refers to the intensity of competition among existing firms in the industry (CGMA, 2013). Competitive rivalry can have an impact on potential revenues or potential costs for all companies in the rental car industry, however, it poses only a medium threat. There are not a lot of competitors in this industry and there is not a lot of potential for industry growth. Rental car lobbyist groups such as the American Car Rental Association (ACRA) help promote sensible car rental legislation and public policy. This helps support all groups in the industry regardless of any rivalries present.

Industry Competitors

A business model refers to a company's structure to generate revenue and produce a profit (Kopp, 2022). A strategic group is a collection of firms in a similar industry that shares similar business models and strategies (Kopp, 2022). These firms have similar objectives, target similar markets, and face similar competitors (Kennedy, 2020). Businesses in the rental car industry pursue two common business models, these are the premium and value-based business models. Companies focusing on the premium business model focus on serving customers wanting high-end luxury and premium car rental services. Some large companies as shown in Figure #1 in Appendix A, which focuses on this premium service are Sixt, and Enterprise Rent-A-Car. Smaller companies include Silvercar and Luxe. Companies focusing on the cost-based business model focus on offering the lowest prices on car rentals to budget conscious renters. Large companies that focus on this model are Budget, and Dollar Rent-A-Car. Smaller companies include Payless, and E-Z Rent-A-Car. Some may choose to offer a premium service offering high-end luxury rental services, and others may offer a low-based business model offering lower valued goods at a discounted cost.

Competitive Actions

In the rental car industry, companies can choose to be highly competitive with each other. Companies can choose to take on an aggressive marketing campaign to attract customers. They can also lobby for certain favorable tax policies and regulations that protect their interest. Rental car companies may also attempt to engage in supply chain contracts to secure a supply of rental cars, gaining an edge over the competition.

Summary of External Analysis – Opportunities and Threats

The rental car industry has an opportunity to enter the growth stage again as noted in the Industry Life Cycle analysis. Rental car industries in foreign countries are expected to grow, as countries like China and India have increasing middle-class populations with rising disposable incomes (Versace, 2021). This can lead to an increase in demand for rental cars and therefore potential increases in revenues.

In relation to the technological factors under PESTEL, the integration of technology in the rental car industry can help reduce costs by streamlining processes, increasing efficiency, and reducing the dependency on manual labor. This has the potential to significantly lower costs for rental car companies and increase their profitability.

The rental car industry faces threats of increased competition from companies such as Uber and Lyft offering alternative modes of transportation potentially decreasing revenues. This is stemming from new social factors as defined in the PESTEL framework. Unfortunately, new technology as presented in the PESTEL framework can produce a potential threat to the rental car industry. The high cost of new technologies and software may cause companies to struggle to keep up with the fast pace of technological change, leading to increased costs.

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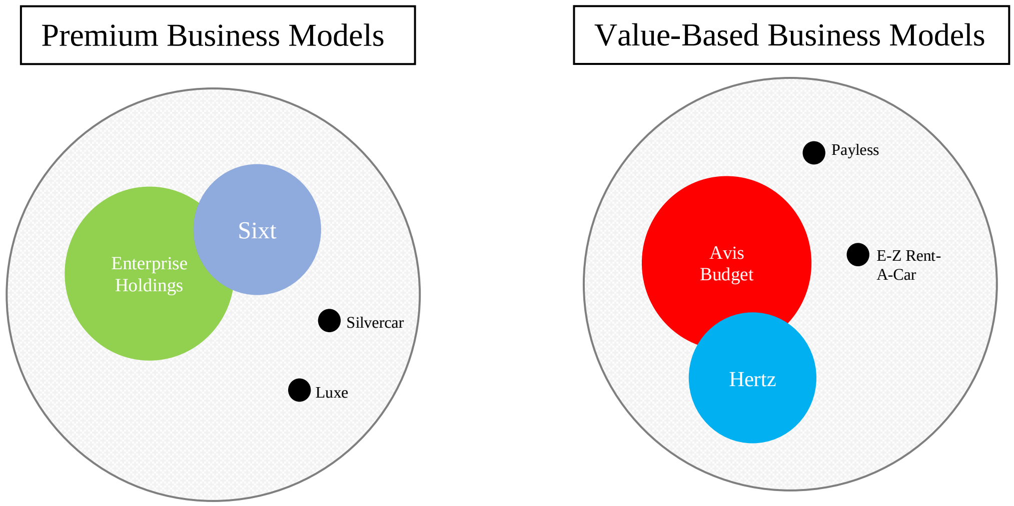
Appendix A



Types of Business Models