2023

Honors Capstone- Analysis of Service Quality Index (SQI) Programs in the Rental Car Industry

Brandon Nally
University of Montana, bn149523@umconnect.umt.edu

Analysis of Service Quality Index (SQI) Programs in the Rental Car Industry

Abstract

This analysis explores a specific program utilized in the rental car industry known as the Service Quality Index (SQI). The SQI is a program for gathering customer feedback about their satisfaction with the rental car services and likelihood of utilizing the services again in the future. By employing this method, a rental car company can obtain valuable and reliable customer data. This paper focuses on the implementation of the SQI program within Enterprise Rent-A-Car (a division of Enterprise Holdings). The analysis examines both the benefits and drawbacks associated with SQI programs in the rental car industry by drawing on research and anecdotal evidence. For instance, these programs have been found to enhance staff performance, increase customer satisfaction, and provide prompt feedback for identifying areas of improvement. Additionally, SQI programs can confer a competitive advantage by offering superior customer service compared to other rental car companies. On the other hand, challenges exist within SQI programs. One key concern revolves around the potential loss of revenue due to the need to waive additional fees, such as gas refueling, late returns, and pet/cigarette detailing fees, to maintain customer satisfaction. Furthermore, finding personnel capable of meeting the high-performance expectations of customer-centric companies, like Enterprise, can be a daunting task. Lastly, SQI programs relying on text or email responses may encounter issues with response bias, compromising the reliability of the collected data.

Background

The style of management at Enterprise Rent-A-Car ("Enterprise), a division of Enterprise Holdings, is known in the industry as unlike other competitors, as it is so oriented towards the customer that many rules and regulations have been put into place to ensure a customer has the best experience possible. Part of the reason for this manner of running a business is due to the implementation of a service quality index (SQI) program within Enterprise.

The importance of this topic stems from consumer behavior. When customers are unhappy, there’s a 91% change they wont do business with a company again (Lee Resources). Dissatisfied customers typically tell 9-15 other people about their experience, and some tell more than 20 people (White House Office of Consumer Affairs). A negative customer experience is the reason 86% of consumers quit doing business with a company (Customer Experience Impact Report). Lastly, a good customer experience can lead 42% of consumers to purchase from that company again (Zendesk Customer Service Study). All of these statistics underpin Enterprise’s goal of implementing an SQI program to leave customers feeling “completely satisfied”.

This paper answers the question, what are the benefits and downsides to using an SQI program in the rental car industry. To answer this question, the paper will first analyze the rental car industry and then review the SQI program for the benefits and advantages associated with such a program.

Industry Analysis

An industry refers to a sector of the economy that produces a particular product or provides a particular service (Simerly, 2002). The purpose of analyzing an industry is to gain a comprehensive understanding of its structure, dynamics, and key players (Simerly, 2002). Analyzing an industry is a crucial step for organizations looking to compete and succeed within that industry (Simerly, 2002).

Industry Overview

The industry under examination is the car rental industry, which is a segment of the larger services sector. The type of service offered by this industry is primarily vehicle (e.g., car and truck) rentals for the public. The total revenue of the car rental industry is 28.1 billion USD in the US and 40.65 Billion USD worldwide.

Key drivers of costs in the industry include maintaining a large fleet of vehicles, insurance on all those vehicles, labor, marketing, and fuel. Whereas key drivers of revenues stem from the consumer demand for a rental car (whether it be to temporarily replace their personal vehicle that has been damaged or for a vacation/leisure), convenience for those who don't own a car to travel, affordability of the rental, location, and online booking.

Industry Life Cycle Analysis

The industry life cycle is a model that describes the stages of growth and decline that an industry goes through over time (Peterdy, 2023). The four stages of the industry life cycle are: Introduction, Growth, Maturity, and Decline (Peterdy, 2023). The purpose of analyzing the current industry stage is to help companies understand the current state of the market and make informed decisions about their strategies and operations (Peterdy, 2023). Based on the analysis of the industry life cycle, the current industry stage of the rental car industry is maturity.

At the current stage of maturity, costs are at peak competitiveness, so companies are trying to lower costs the most they can to remain competitive. Given the amount of competition they have, the profit margins are low to increase competitive pricing towards consumers. So, the revenue is much smaller due to the industry being at the Maturity level.

Product & Process Life Cycle

The current industry stage promotes product innovation. Due to the competitive nature caused by the maturity stage, the companies are looking for any and every way to get ahead of their rivals in one aspect or another.

Similar to product innovation, process innovation is also very important to the companies in this industry. By improving the process to rent a car, they can entice consumers to choose their company over the competition. The National rental car company has improved their process by pre-approving the renter before they arrive at the business. In a similar way that TSA precheck works, they get to skip a good portion of the wait that a normal rental car company has and get straight into a vehicle.

Industry Forces (Porter's 5-Forces) Analysis

The purpose of analyzing industry forces is to understand the competitive environment in which a company operates and to make informed decisions about strategy, operations, and growth (de Bruin, 2016). Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths (de Bruin, 2016). These 5 forces are Competition in the industry, Potential of new entrants into the industry, Power of suppliers, Power of customers, and Threat of substitute products (de Bruin, 2016). A high threat to industry profit potential means that the force has a significant impact on a company's ability to generate profits, while a low threat means that the force has a relatively small impact.

Threat of New Entrants

The Threat of New Entrants is the threat of new competitors entering the market (Baker, 2022). The force assigned for the threat of new entrants was "Land, leases, or buildings as barriers". This force is very weak since most of the businesses are very well established already and have such smooth running business models that it would be very difficult to compete with their price or convenience. The desire of a company to enter the industry to take a share of profits is high, but the threat of new entrants is low due to the inability to secure large lots of land convenient to airports. All of the existing rental car companies have established land, leases, and buildings, which allows them to in a convenient location for the airline customers to reach them. Any new entrant without any of this land would have to convince a customer to leave the airport property and travel much further to where the new entrant could obtain land, lease or buildings.

Bargaining Power of Buyers

The bargaining power of buyers refers to the ability of customers to influence the price, quality, and variety of products and services offered by suppliers (Cook, 2014). A key limitation on demand and revenues in this industry is bargaining power of an Informed Consumer.

Bargaining Power of Suppliers

The bargaining power of suppliers refers to the ability of suppliers to influence the prices, quality, and availability of products and services that they sell to buyers (CFI Team, 2023). A driving factor for costs in the industry are related to the number of suppliers of automobiles. The potential costs due to the suppliers of automobiles is high right now because of the car market for new and used vehicles. The resulting impact of this force on the overall industry profit potential is that it will decrease because the overall industry potential costs increase.

Threat of Substitutes

The threat of substitutes refers to the presence of alternative products or services that a customer can use in place of the product or service being offered by a company (Dan, 2013). An impactful substitute are services, such as Lyft. Lyft is not a direct competitor for the rental car indusrty, but rather Lyft is a substitute method of transportation, similar to a taxi. One is a one-time use, then you have to purchase another, whereas you can use a rental car as much as you'd like for a given period of time. The resulting impact of this force on the overall industry profit potential is that it will decrease due to consumer's receiving substitue transportation services outside of the rental car industry.

Competitive Rivalry

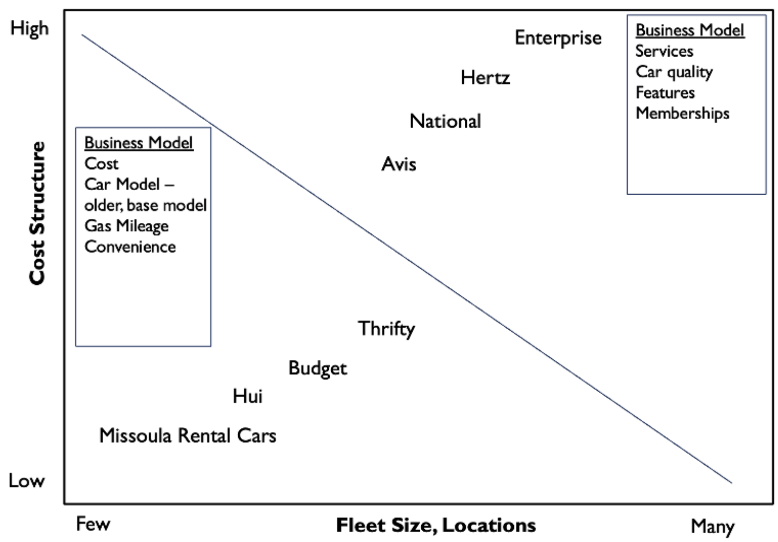
Competitive rivalry refers to the competitive dynamic between existing companies in an industry, as they compete for market share, profitability, and customer loyalty (Scott, 2023). One such example of competitive rivalry is the use of slander, criticism, or smear campaigns. While there is not a lot of outright slander or criticism in this industry, when companies attempt to outmaneuver each other through various competitive tactics, this increases the various costs to do business while lowering the perceived consumer value of the industry's goods and lowering the customers' willingness to pay a premium price. The net result of this rivalry is increased potential industry costs, decreased potential industry revenues, and decreased overall industry profit potential. If there is a general respect between businesses, and this technique is not often used by the large competitors, then this force is considered a weak threat to overall profit potential because costs are not being expended to retaliate and revenues are not being eroded through these maneuvers.

Industry Competitors

A business model refers to the way a company generates revenue and profits by offering goods or services to customers in exchange for money (Genever, 2020). A strategic group is a collection of firms within an industry that pursue similar strategies, face similar challenges, and share common characteristics such as similar target markets, similar production processes, and similar competitive approaches (Genever, 2020). Some of the business models that firms in this industry pursue are the pay-per-use model, airport rental model, and the online rental model. Several large companies in this industry are Enterprise, Hertz, and Avis. These companies compete on differentiation of the products, such as adding additional services, quality and features of the vehicles, and membership programs. Some small companies would be Thrifty, Budget, and Missoula Rental Cars. The smaller companies tend to compete on price stemming from offering base-model vehicles, gas mileage allowances, and convenience.

Figure 1

Strategic Groups by Business Model in the Rental Car Industry



SQI Analysis

About the SQI Program

SQI is an acronym that stands for “Service Quality Index”. It is used in many different companies throughout all categories of the business world, but a prominent and successful example of the SQI implementation is within the rental car industry. Enterprise was the first company to incorporate the program in 1994, they dubbed it the “ESQI” standing for “Enterprise Service Quality Index”. The SQI entails 2 questions: “How was your experience with Enterprise?” and “Would you use Enterprise again in the future?”. Using those two simple questions at the return of a rental, Enterprise got the information they needed for the SQI as well as eliminated response bias by making sure they get every renter to respond.

Benefits of the SQI Program

There are many benefits of the SQI program, starting with the enhancement of staff performance and increase in customer satisfaction. Using those 2 questions at the end of each rental can allow the customers to express what they liked about their experience and what they don't.

Using that information, managing personnel can tweak certain aspects of the way the company works or handles situations to make it a more pleasant experience for consumers. In the same vein, it points out issues that can be resolved faster than without an SQI program because it is instant feedback. The competitive advantage of the customer service provided compared to the other rental car companies is also a great benefit of the SQI program.

Negatives of the SQI Program

Along with benefits, there are also issues with the SQI program. The main one being the loss of revenue. In order to keep the customer happy and impressed with the customer service, it is oftentimes a strategy to knock off additional fees such as gas refueling fees, late return fees, and pet/cigarette detailing fees. Doing so may improve customer satisfaction, but it also takes a lot of money away from the company.

Another issue is finding staff willing to adhere to the strict customer service demands. Enterprise is so customer focused that managing personnel require such good personal skills and generosity that oftentimes, new employees will decide they can't maintain such an attitude for a career. A manager would make sure employees were always smiling and using a super friendly voice along with opening the doors for each and every customer on the way in and out.

Lastly, the issue with data reliability. Enterprise managed to get around this issue by incorporating the 2 questions in person after a return of a rental, but several companies use an

SQI program through text or email. The response bias is so great that the data collected by those programs aren’t anywhere near accurate.

Conclusion

After conducting an analysis of the SQI program in the rental car industry, some impactful benefits stand out related to performance, service processes, and customer satisfaction. Additionally, some drawbacks were highlighted related to employee and manager behavior, increases in costs, and reductions in revenues. In conclusion is that the program as a worthwhile investment for a company as long as calculations for cost and benefits are done before implementing it.

References

Avis Budget Group, Inc. (2014). In J. P. Pederson (Ed.), *International Directory of Company Histories* (Vol. 158). Farmington Hills, MI: St. James Press; *Business Insights: Essentials*.http://bi.gale.com.weblib.lib.umt.edu:8080/essentials/article/GALE|I2501318363/a1c8c47a69dfa1389360037b947e2a65?u=mtlib_1_1195

Avis Budget Group, Inc. (2022). *Form 10-K (For fiscal year ended December 31, 2021)*. U.S. Securities and Exchange Commission. https://www.sec.gov/ix?doc=/Archives/edgar/data/0000723612/000072361222000006/car-20211231.htm

Car Rental Marketing. Expedia Group Media Solutions. (2022, June 17). Retrieved February 6, 2023, from https://advertising.expedia.com/getting-started/advertisers/car/

de Bruin, L. (2016, August 3). Porters Five Forces. *Business-to-you*. Retrieved May 2023 from https://www.business-to-you.com/porters-five-forces/

The Hertz Corporation. (2021). In S. Robertson & N. Schlager (Eds.), *International Directory of Company Histories* (Vol. 230). Farmington Hills, MI: St. James Press; Business Insights: Essentials. https://bi-gale-com.weblib.lib.umt.edu:2443/essentials/article/GALE|I2501325594/3ef756e0b16c08557bf1eeba07e73ffd?u=mtlib_1_1195

Hertz Global Holdings, Inc. (2022). *Form 10-K (For the fiscal year ended December 31, 2021)*. U.S. Securities and Exchange Commission. https://www.sec.gov/ix?doc=/Archives/edgar/data/0001657853/000165785322000012/htz-20211231.htm.

How to measure service quality. (2022, August 19). Qualtrics. Retrieved May 7, 2023, from https://www.qualtrics.com/blog/how-to-measure-service-quality/

Kennedy, R. B. (2020). *Strategic Management*. Virginia Tech Publishing. https://doi.org/10.21061/strategicmanagement CC BY NC-SA 3.0

Leading Auto Rental Firms, 2021. (2023). In V. L. Burton III (Ed.), *Market Share Reporter* (33rd ed.). Farmington Hills, MI: Gale; Business Insights: Essentials. http://bi.gale.com.weblib.lib.umt.edu:8080/essentials/article/GALE|I2502078815/5787347d83f4da08c008e83c5dcc6572?u=mtlib_1_1195

McCain, A. (2023, January 16). 20 crash-tested car rental industry statistics [2023]: What is the car rental industry. Zippia 20 CrashTested Car Rental Industry Statistics 2023 What Is The Car Rental Industry Comments. Retrieved February 6, 2023, from https://www.zippia.com/advice/car-rental-industry-statistics/#:~:text=The%20U.S.%20car%20rental%20market,billion%20in%20revenue%20each%20year.

Passenger Car Rental. (n.d.). In *Business Insights: Essentials*. Farmington Hills, MI: Gale. Retrieved November 5, 2022, from https://bi-gale-com.weblib.lib.umt.edu:2443/essentials/industry/532111?u=mtlib_1_1195

Passenger Car Rental. (2022). In *Encyclopedia of Global Industries*. Farmington Hills, MI: Gale; Business Insights: Essentials. http://bi.gale.com.weblib.lib.umt.edu:8080/essentials/article/GALE|RHHGFZ640769873/47f25a2d6fcbb0310e8d6191f2bd390b?u=mtlib_1_1195

Peterdy, K. (2023, May 8). Industry Life Cycle. *Corporate Finance Institute*. Retrieved May 2023 from https://corporatefinanceinstitute.com/resources/management/industry-life-cycle/

Rizzo, C. (2020, May 18). Car Rental companies step up their cleaning protocols ahead of Summer Travel (video). Travel + Leisure. Retrieved February 5, 2023, from https://www.travelandleisure.com/travel-tips/ground-transportation/car-rental-coronavirus-cleanings-hertz-enterprise

Simerly, R. L. (n.d.). Strategic Management Case Analysis. Retrieved May 2023 from https://www.westga.edu/~bquest/2002/strategic1.htm

Stevenson, S. (2013, August 12). Was "we try harder" the most brilliant ad slogan of the 20th century? Slate Magazine. Retrieved February 6, 2023, from https://slate.com/business/2013/08/hertz-vs-avis-advertising-wars-how-an-ad-firm-made-a-virtue-out-of-second-place.html

Swallow, B. (2014, July 1). Esqi: Why is a 20-year-old service measure still so influential? MyCustomer. Retrieved May 7, 2023, from https://www.mycustomer.com/service/management/esqi-why-is-a-20-year-old-service-measure-still-so-influential

Www.inc.com. (n.d.). https://www.inc.com/andrew-thomas/the-hidden-ratio-that-could-make-or-break-your-company.html?Tag=Inbound%25202012