A Work Project presented as part of the requirements for the Award of a

Master's Degree in Management from the NOVA School of Business and Economics.

DISRUPTING THE RENT-A-CAR MARKET

THROUGH SHARING ECONOMIES

BRUNO MENDES PINHEIRO GARCIA

#2296

A Project carried out on the Master in Management Program, under the supervision of:

Professor Luís Manuel da Silva Rodrigues

MAY 2016

Abstract

The World is changing.

As Tom Goodwin, Senior Vice President of Strategy and Innovation at Havas Media, would eloquently put it: "Uber, the world's largest taxi company, owns no vehicles. Facebook, the world's most popular media owner, creates no content… And Airbnb, the world's largest accommodation provider, owns no real estate". In that line of thought "Disrupting the Rent-a-Car Market Through Sharing Economies" is a Directed Research Work Project with the purpose of building a Business Plan for launching a Mobile Peer-to-Peer Car Rental Platform in Portugal, while creating Consumer Value and driving sustainable competitive advantage.

Key words:

Sharing Economies / Fractional Ownership / Digital Disintermediation / Marketplaces

"The Firm waits for the phone to ring... And ring it does.

Not because it sells, but because it markets." – "The McKinsey Way"

Executive Summary

This Project was born with the <u>Purpose</u> of building a Business Plan for launching a Mobile Peer-to-Peer Car Rental Platform in the Portuguese Rent-a-Car Market.

Some powerful <u>Insights</u> were at the heart of it: **(1)** Why not turn an asset like a car, which traditionally loses value over time, into an asset that generates value, like a house; **(2)** The Rent-a-Car Market in Portugal was worth 542 Million euros and grew +6,5% last year[1,2]; **(3)** Consumers are not satisfied with the complexity of leading Rent-a-Car brands[3]; **(4)** There is no reference brand in Mobile Peer-to-Peer Car Rental in Portugal and **(5)** There is a huge pool of 1,2 Million used cars with less than 5 years[4], which are parked more than 90% of the time[5], have high maintenance costs, and can be connected to some of the 17,4 Million Tourists[6] who visit the country each year and look for a car to rent.

With those insights in mind it was clear there was an <u>Opportunity</u> to be explored: A big idea, a huge market and no player still capitalizing on it. So the concept of a Mobile Platform that aims to be the <u>Interface</u> that connects Tourist Drivers to Local Car Owners seemed promising. The <u>Problem</u> then was how to strategize a successful launch to this innovative concept, while ensuring value creation for the Consumer and sustainable competitive advantage?

The <u>Solution</u> that this work proposes is to capitalize on the first mover advantage and be the first to own this Peer-to-Peer territory, by capturing a base of consumers large enough to generate network effects and avoid new digital competition to come in. At the same time, the Platform will disrupt the existing local traditional Rent-a-Car competitors by offering a better, simpler and more efficient service. Being digital and having a structural cost advantage that comes from not owning a car fleet or infrastructure, the Platform is able to offer <u>added value</u>

to Drivers by delivering a much wider variety of cars, an accessible unique price per hour with all extras included (versus the complex Market price per day with no extras) and a convenient free pickup and delivery service, anywhere there is a car Owner and a Driver.

The Platform will offer those benefits and adopt a strategy of multiple targeting, by focusing on Tourist Drivers by one hand, and in the other hand on Local Car Owners who are present on poles that aggregate supply of used cars (Stands of used cars and online sale platforms like Stand Virtual). The main Marketing Objective is to build a strong brand fast, through Penetration growth and widespread aspirational communication. To deliver value in a differentiated way, the Platform will have an aspirational brand communication idea called "Find Your Path", which will be leveraged by a dual-channel Communication Strategy that bets on Facebook and Google AdWords, while targeting narrow consumer segments (Tourists that perform searches from Portugal, UK and Germany, to find a car to visit Madeira, Norte, Centro, Alentejo and Azores)[6]. This way, it is more likely to display a stronger media pressure versus the competition, on at least 24% of the market, eventually driving more awareness, clicks and transactions on this consumer cluster. Being a geo-localized business where people must physically meet and supply and demand must coexist at the same time, the Entry Strategy is to start small, and from there, build a strong market position region by region. With this goal, the entry is divided in three phases, being the first two fully Self-funded: **(Phase 1)** Product Development and Team Recruitment; **(Phase 2)** Test Period in Madeira, to prove the concept in a small scale and **(Phase 3)** Scaling Period to turbocharge the growth of the business, already with External Investment. The Project will require an Investment of 289.300 euros for the first two years of operation, being forecasted to reach Breakeven in 15 months (Q3 of 2017), with Revenues of 3.540.000 Million Euros and a Net Profit Margin of 13% in the second Full Year (Phase 3). Initial Investment is expected to Pay back after 15 months and Round 1 of External Investment after 12 months.

The article *"How to Write a Great Business Plan"*[I] written by William Sahlman, Professor of Business Administration at Harvard Business School, states that a Plan of this nature should include four interdependent factors, no matter its structure: **(1)** "Context", **(2)** "Opportunity", **(3)** "People" and **(4)** "Risk and Reward". Having these fundamentals in mind, the project was divided in three sections that together propose an integrated route to solve the initial problem: **(1)** *"A. Background - Where to Play"*, **(2)** *"B. Strategic Formulation - How to Play"* and **(3)** *"C. Action Plan - Play to Win"*. In each section, traditional frameworks or adaptions were used based on the book *"Principles of Marketing"*[II], written by Philip Kotler, Professor at the Kellogg School of Management, and others. After defining the structure, an exhaustive search phase took place, where the solidness and impartiality of third party large scale studies, comprising thousands of individuals, were privileged to small scale researches of my own. Besides the strong insights provided by the context analysis, a rational creative thinking approach proved to be crucial, and it was inspired in three books: **(1)** *"Thinking Fast, and Slow"*[III], written by Daniel Kahnman, Psychologist and Nobel Winner in the field of Economic Science, which discusses happiness economics, human irrationality and common errors of judgment in consumer decision making; **(2)** *"The Paradox of Choice Why More is Less"*[IV], written by the Psychologist and Professor Barry Schwartz, on the role that reducing choices in product offerings plays on minimizing buyers' anxiety; and finally **(3)** The Theory of *"Blue Ocean Strategy"*[V], written by W. Chan Kim and Renée Mauborgne, Professors at INSEAD, and used as central framework to strategize competitive advantage through Value Innovation. Lastly, three practical Business Principles from my own experience of some years in FMCG Multinationals were used: **(1)** Avoidance of obvious routes by predicting competition behavior; **(2)** Disintermediate to create value and **(3)** Focus of investment to create synergies and leadership positions which otherwise would be impossible to achieve.

1. Problem

Every solution starts with a problem.

This work is no exception and it all started with the desire of launching a business and the foundational question of "How to successfully launch a Mobile Peer-to-Peer Car Rental Platform in Portugal, which creates value for consumers and ensures sustainable competitive advantage versus local traditional competitors and potentially new digital entrants?"

2. Market Context

2.1. Defining "Where to Play"

Why Rent-a-Car? Rent-a-Car companies compete in the broader market of transporting people, which may be catalogued in two categories according consumer needs:

Figure 1: Alternatives Map
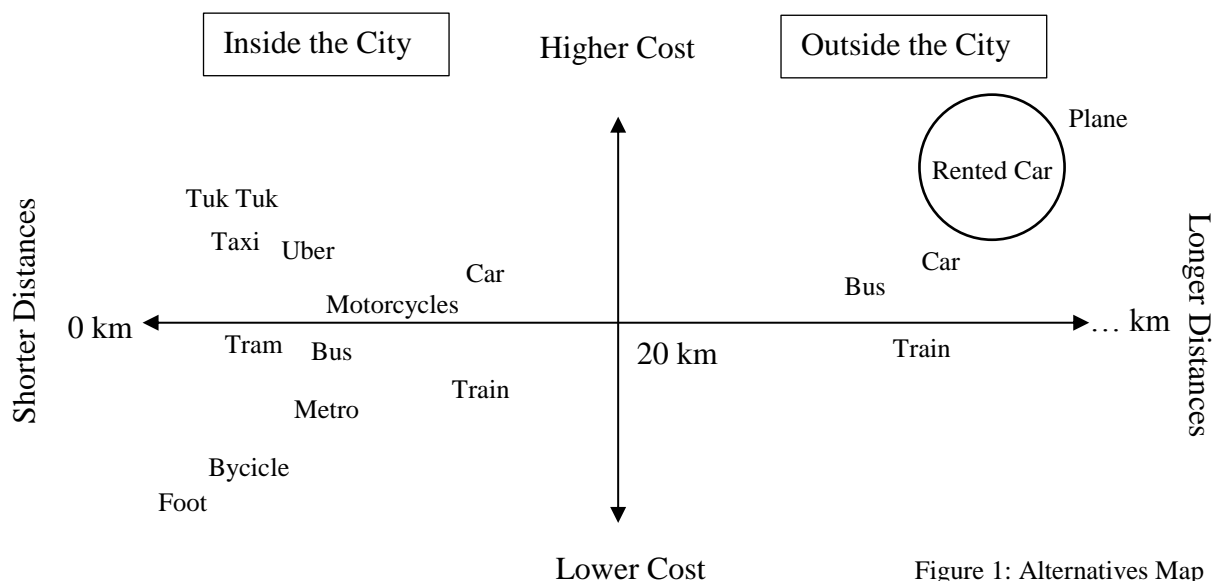
Strategically speaking, when entering a mature market with a limited amount of capital and with the desire to make the biggest possible difference in the life of the Consumer, it may be wise to go for the most underdeveloped segment in terms of options and competition. Analyzing the "Outside the City" transport segment, it seems to be less populated in terms of competitor offerings, reason why we will chose to play here. Deep diving on it, the Rent-a-

Car cluster appears to have more margin of improvement in terms of efficiency and consumer satisfaction than the other available options (just think about the complexity, time and cost of renting, picking-up and delivering a car, when compared with catching a train for example).

2.2. Opportunity: Trends and Market Size

Trends: (1) Tourists are worth 58% of the Rent-a-Car Revenues[7,8] . According to Turismo de Portugal and INE in the report *"Análise Regional"* (2015*),* the number of Tourists who visited Portugal grew +8,6% in 2015 versus previous year and represents already a huge base of 17,4 Million individuals[6]. **(2)** According to Google Trends[9], searches related to car rentals in Portugal are increasing and 88% of consumers search via mobile[10], which is already the largest platform[11]. The biggest search pics always occur in summer, from June to September:
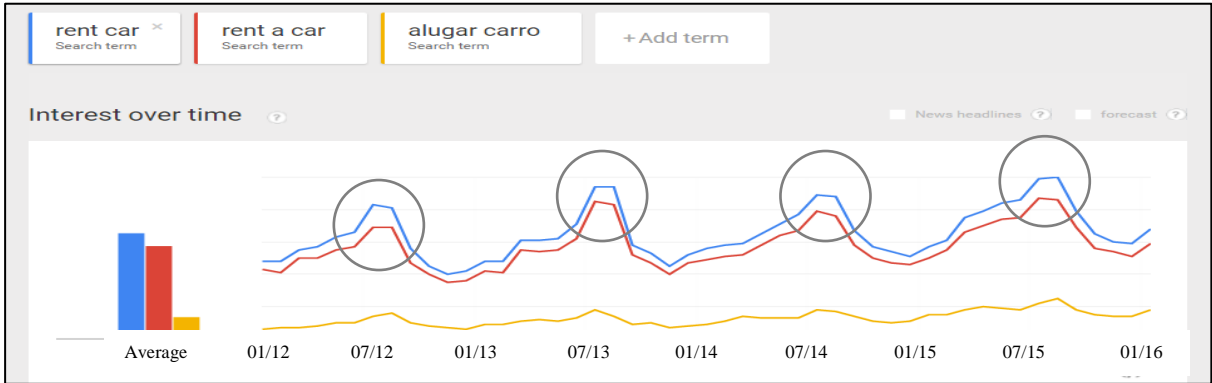
Graphic 1

(3) With the hard economic context people are looking for alternative sources of revenue, as we can see by phenomena like selling used goods on OLX or renting houses on Airbnb.

Market Size: The Rent-a-Car Market in Portugal had a Sales Value of around 542 Million Euros in 2015 and grew +6,5%[1,2]. Market Evolution in the last 3 years was as following:
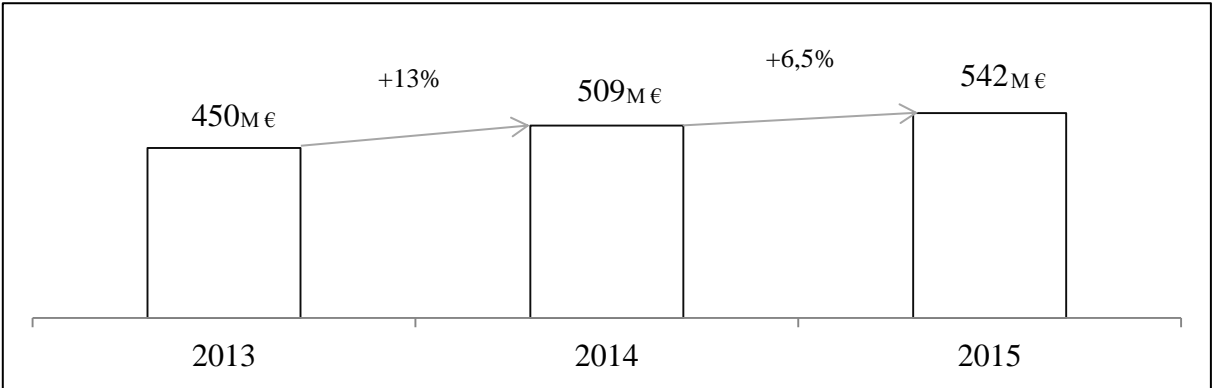
Graphic 2

2.3 Competition and Law

Competition: Market revenues were generated by approximately 100 companies[12], with a fleet of 75,000 cars[13], producing each one an average revenue of 25 euros a day[*] with an occupancy rate of 80%[14] (rented 292 days per year). Last year were celebrated around 7,3 million rental contracts[**] with 3 days of average duration[15]. Only 47% are estimated to be done online[16], and companies of the sector employ around 6,500 workers[8].

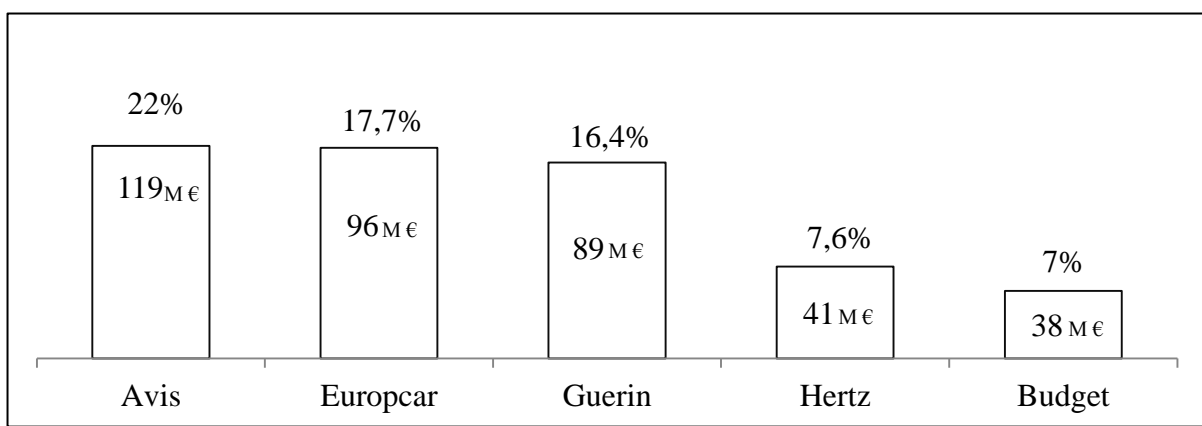Below are the Market Value Shares[***] of the Top 5 Players operating in Portugal in 2015:

	Avis	Europcar	Guerin	Hertz	Budget
%	22%	17,7%	16,4%	7,6%	7%
M€	119 M€	96 M€	89 M€	41 M€	38 M€

Graphic 3

Fleet acquisition, salaries and the infrastructure of points of sale spread across the country, represent considerable high costs of structure in a Traditional Rent-a-Car P&L.

Analysis of the communication of main players reveals an exclusive focus on functionality (how to rent, prices and conditions), while digital points of contact have in general poor design, being often polluted and difficult to use.

Law: In the portal of "*Instituto de Mobilidade e Transportes*"[17] is indicated the "*Decreto-Lei n.º 181/2012*", published in 2012 on "*Diário da Républica*"[18] by the Ministry of Economy and Employment, where the activity of the Rent-a-Car Industry in Portugal is regulated. This document states indirectly that Peer-to-Peer car rental, as a type of car sharing, is not currently regulated by the existent Portuguese law as a matter of rent-a-car activity. The juridical regimen which regulates the rental of vehicles of passengers without driver clearly excludes "contracts of organization of rentals that aim to the sharing of vehicles, designated by car

sharing", defining them as car rental services that comprise "very short periods of time". In other words, a Peer-to-Peer Car Rental Platform is not subject to the limitations, namely licenses and IMTT approvals, which cover traditional Rent-a-Car companies in Portugal.

3. Consumer

Consumer should be at the heart of everything we do.

This Digital Peer-to-Peer Car Rental Platform aims to connect two consumer targets and it is important to understand both in depth. On the Demand side, we have the people that look for renting a car to travel in Portugal, these are the "Drivers", and comprise Tourists that came from Portugal or other countries. On the Supply side, there are the people that have the cars that will be rented and registered on the Digital Platform, the Owners, or as I prefer to called them, "Partners", which are mainly Portuguese locals.

3.1 Drivers – Demand Side

Who are they: According to ARAC, the Association of Rent-a-Car Companies in Portugal, the largest consumer segment of Car Rentals is composed by Tourists, which represents 58%[7] of the rental contracts done each year. These Tourists look to rent cars to visit different destinations[6]: Algarve (33%), Lisbon (25%), Madeira (14%), Norte (13%), Centro (9%), Alentejo (3%) and Azores (3%). They stay on average 3 nights and come from different countries of origin: Portugal (30%), UK (17%), Germany (10%), Spain (7%), France (7%), Netherlands (4%), Scandinavia (3%), Brazil (3%), Ireland (3%), Italy (2%), US (2%) and Others (12%)[6]. **What are their perceptions and behaviors:** According to the "*Global Automotive Consumer Study*" (2015) [19], developed by Deloitte with 23.000 respondents, the main reason for consumers bellow 35 years for not buying cars is the perception that involves high costs of purchase and maintenance. Yet 40% of them say they would rent cars if the service was easily available and 43% say they would try a car sharing like app, if it was suggested by family or a friend. According to the "*Global Brand Simplicity Index*" (2015)[3], a

study performed on more than 12.000 people, consumers already have formed opinions about Rent-a-Car companies, and consider big brands like Hertz and Avis among the most complex of all (even when compared to other Industries other than Automotive). According to "*Observador Cetelem - Mercado Automóvel Mundial*" (2015)[20], a report sponsored by BNP Paribas and realized by TNS with more than 7.550 respondents, the rate of effort to buy a car in Portugal is more than the double of the European average (they need more than 16 months of complete salary to pay for their car). The same study suggests that Drivers travel in average 33 kilometers per day and have 3 main positive psychological associations regarding cars: "It is a way to win time", "it means liberty and autonomy" and "it is an indispensable way of transport". According to the research "*Understanding Consumers - Local Search Behavior*" (2014) performed by Google, we also know that more than 88% of consumers use smartphones to perform searches with local intent[10]. Search results on Google Trends, suggest that brands play an important part in guaranteeing trust on the process of renting a car, since the volume of consumer searches for the brand names of the main Rent-a-Car companies in Portugal is very close to the levels of the top searched term, which is literally "rent car"[21]. Finally, according to a study done by Deco[22], major companies show lower satisfaction levels mainly in 4 components: "process of choosing a vehicle", "insurance included on price", "price of extra insurance coverage" and "quality/price relation".

3.2 Partners – Supply Side

Who are they: Partners are the supply side, since they are the Owners of the cars we are trying to rent to Drivers. We will be looking mainly for get registers of semi-used cars, in order to be able to compete with the perception of quality and safety that the traditional car rentals offer. We know that people that buy new cars in Portugal have in average 48 years old and 69% of them are men[20]. Wanting to guarantee a fleet with less than 5 years to address quality and safety perceptions we know that a good part of these Owners will be men

somewhere in their forties'-fifties'. According to the report "*Estatísticas do Sector Automóvel*" (2013)[4], there are 4,5 Million cars in Portugal, 1,2 Million of which have less than 5 years. **What are their perceptions and behaviors:** The "*Driving and parking patterns of European Car Drivers - A Mobility Survey*" (2012) taken care by the European Commission, says Owners leave their cars parked in average more than 22 hours a day, in other words more than 90% of the time[5]. It is known that the costs of owning a vehicle in Portugal represent 11,5% of the annual a family total spend[20],   which is a huge financial burden. Finally, reality observation suggests local Owners are increasingly more open to concepts of selling or renting their goods, as we can see by phenomena like OLX or Airbnb.

B. STRATEGIC FORMULATION – "How to Play"

"Strategy is about making choices…

About deliberately choosing to be different." – *Michael Porter*

4. Vision, Mission and Values

Vision [Go Where?]: "Become the Airbnb of cars." **Mission [How?]**: "By providing the right car, at the right time, in the right place, for the right price, to drivers that seek freedom of movement to travel, explore and live adventures." **Values [With What?]**: **(1)** Consumer Focus, **(2)** Trust, **(3)** Innovation, **(4)** Advertise to Win, **(5)** Fast Continuous Improvement **(6)** Frugality and Operational Efficiency, **(7)** Focus on Impact: Fewer Bigger Better Initiatives, **(8)** Mobile Native Solutions

5. Segmentation, Targeting and Positioning

Segmentation

Segmentation Criteria for Drivers are mainly "Behavioral" (with the segmentation variables of "purchase occasion", when they search on google for a car to rent, and "benefits sought", because they search for a car to have freedom to explore) and "Geographical" (consumers

search from a specific "location" to visit a specific destination). Existing Drivers consumer groups are Tourists (58% of the Rent-a-Car Market), Private and Public Companies (36%) and Other Individuals (6%)[7] Regarding Partners, the Segmentation Criteria are also Behavioral (with the variable of "benefits sought" of winning money) and "Geographical" (they live and have the car to rent in a specific location). Existing Partners consumer groups that may rent cars include: Private Rent-a-Car Companies, Individuals and Other Companies.

Targeting

Target Drivers: Tourists who want to rent a car to travel in Portugal.

Specifically the ones searching for a specific destination to visit (Madeira, Norte, Centro, Alentejo and Azores), from a specific location/country of origin (Portugal, UK and Germany), which are 24% of the Market. **Basic Need**: "I look for travelling with freedom of movement to live adventures and explore new places in exciting new ways."

Figure 2

Target Partners: Focus on poles of concentration of supply (cars). There are two main targets: **(1)** People that manage places where cars are parked many days in a row, in this case owners of used car stands, and **(2)** People that have their car for sale in online platforms like "Stand Virtual". These consumers have a very high motivation to quickly monetize their cars, which makes renting an attractive short term solution. Being concentrated on specific places they are easy to identify and visit/contact, even with a small sales team, making more likely to get multiple car registrations on the platform at a time. Additionally we guarantee a vast

selection (that we can chose from) and that the cars are clean, functional and with an acceptable condition within its price range to compete with the traditional Rent-a-Cars' offer.

Basic Need: "I want to monetize my cars while I cannot sell them."

Positioning

"We are a Mobile Peer-to-Peer Car Rental Platform **[Frame of Reference]** that connects Tourist Drivers who want to rent a car to have freedom of movement to live adventures and explore new places in exciting new ways, to Partners that own cars and want to monetize them **[Target Groups]**. We offer Tourists the easiest and coolest way of driving the car they want **[Point of Difference]** because we believe they should have the freedom to explore."

[Reason Why]

06. Strategic Canvas and Four Actions Framework

Having the Vision it is time to develop the Value Proposition.

The Cornerstone of Blue Ocean Strategy[23] says that "Value Innovation is created in the region where a company's actions positively affect its cost structure and its value to consumers".

Using the **Strategic Canvas**[25] framework we develop the Current Industry Value Curve for the Consumer, which identifies factors where the Industry competes in and level of intensity:
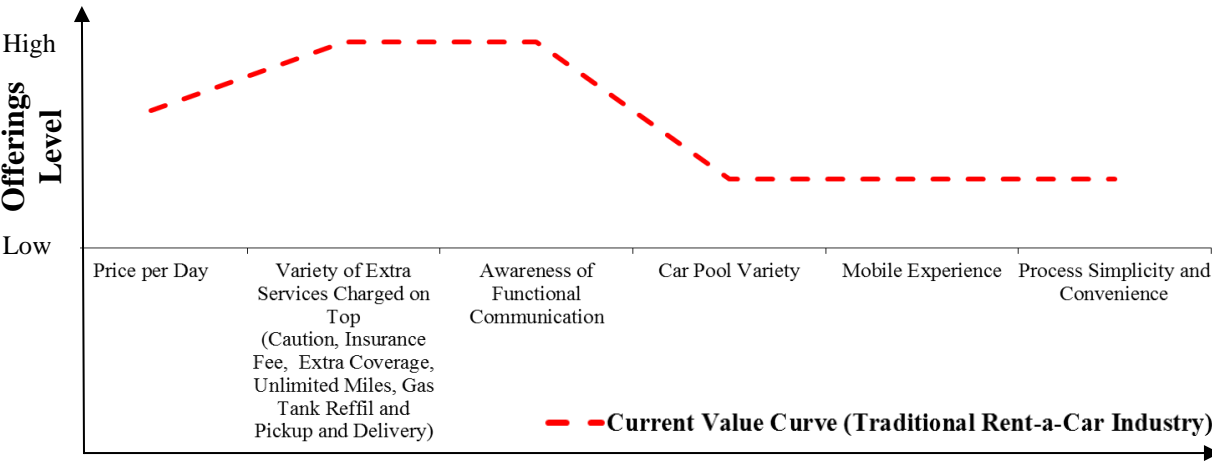
Graphic 4   **Competing Factors**

With the Four Actions Framework[24] we are able to disrupt the factors where the Industry currently competes in and organize them under an **ERRC Grid** to create a new value curve:

Eliminate	Reduce	Raise	Create
(1) Variety of Extra Services Charged on Top (Caution, Insurance Fee, Extra Coverage, Unlimited Miles, Gas Tank Refill and Pickup and Delivery)	**(2)** Price per Day **(3)** Awareness of Functional Communication	**(4)** Car pool variety **(5)** Mobile Experience **(6)** Process simplicity and Convenience	**(7)** Awareness of Aspirational Communication **(8)** Flexible Pickup and Delivery for free **(9)** Unique Price per Hour (All Extras Included)

Table 1

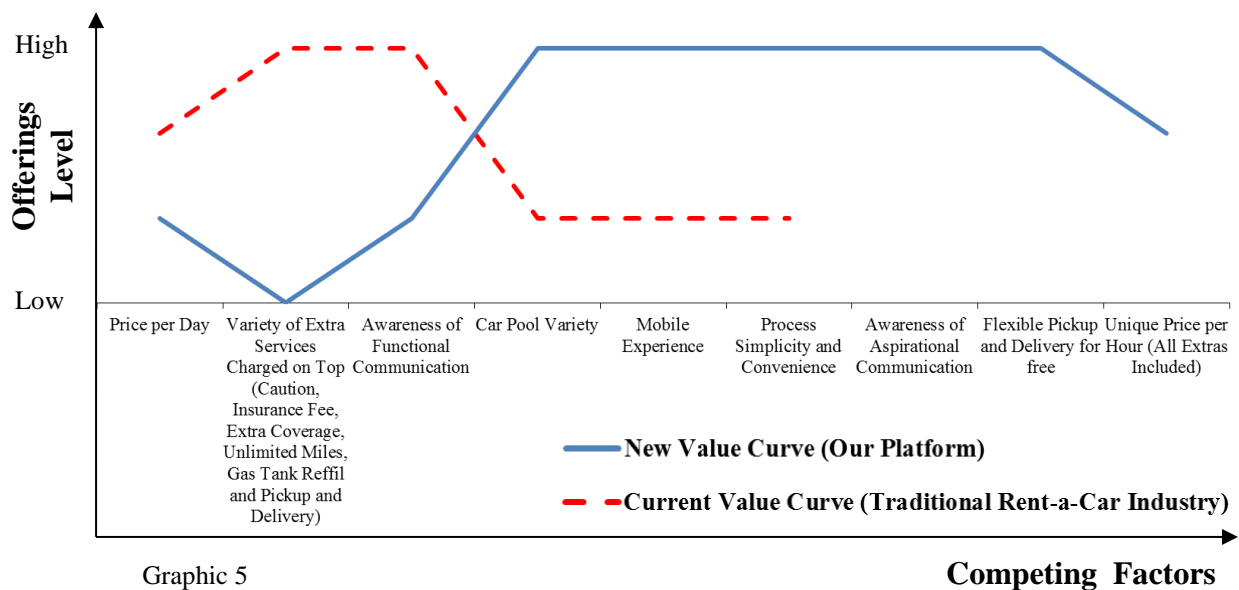With the ERRC Grid, we develop a second **Strategic Canvas**[25], which clearly indicates where value from innovation is created for the Consumer, through a New Value Curve:

Graphic 5

07. Product Concept, Price, Process and Revenue Model

Product Concept

The Platform could be described in two words as being a Trust Broker.

The product is a Digital Peer-to-Peer Car Rental Platform composed by two interfaces, the primary one is a mobile application and the secondary one a mobile responsive website for users that don't want to install the app. It is technically defined as a digital marketplace and its primary function is to be the intermediary middleman that connects Drivers that want to rent a car to travel and Partners that own a car and want to monetize it by sharing it (a sharing economy). As a broker of information, the Platform connects demand and supply and acts as

a guarantee of trust between parts that don't know each other. Trust is the key word and the biggest Value Proposition for users. Trust is the reason consumers come to the Platform in the first place, and at the same time the reason they do not feel tempted to make the transactions outside of it even once they connect with potential buyers or suppliers. Trust creates a "Lock in Effect" and is guaranteed by the synergies of 5 Information pillars, that nor Drivers or Partners are able to get without a 3rd party, preventing them to leave the Platform:

Figure 3

Payment Intermediation	Insurance Intermediation	Data Protection	Safety Through Social Review of Cars	Aggregation of Demand and Supply

For example a Driver may use a traditional rent-a-car as an alternative, but he will not find so much car variety as he would in the Platform (Aggregation of Supply), or a Partner may feel tempted, once he gets in touch with a Driver, to perform payment transactions outside the Platform, but he cannot guarantee that this unknown person will pay him after the service (Payment Intermediation). The proposed design for the platform is to be clean and simple, with big fonts, icons and well illuminated images, specially designed to mobile use.

Simplified Process and Revenue Model

Inside the Platform, renting or registering a vehicle would be an easy process that could be done in just a few steps as we may see from the **Process Map** below:

Figure 4

16

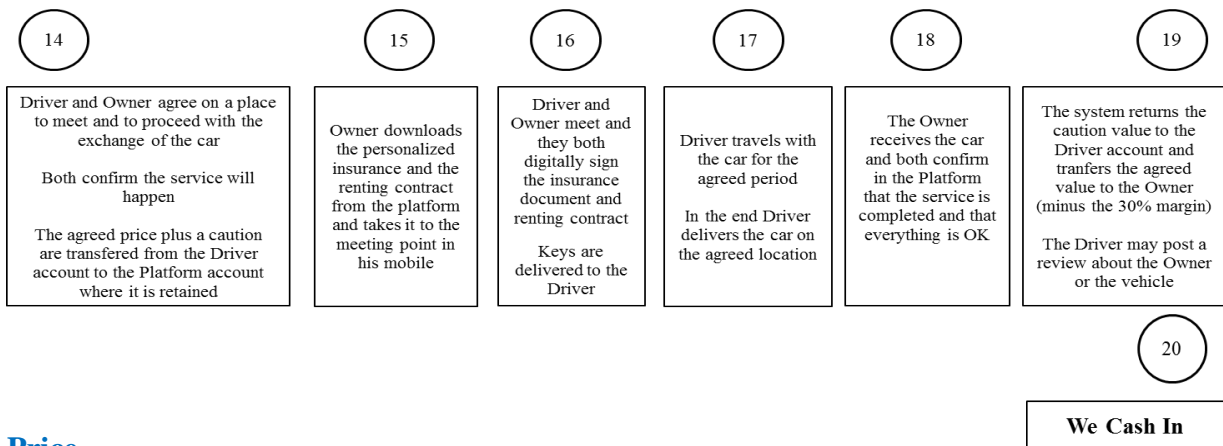| 14	15	16	17	18	19
Driver and Owner agree on a place to meet and to proceed with the exchange of the car Both confirm the service will happen The agreed price plus a caution are transfered from the Driver account to the Platform account where it is retained	Owner downloads the personalized insurance and the renting contract from the platform and takes it to the meeting point in his mobile	Driver and Owner meet and they both digitally sign the insurance document and renting contract Keys are delivered to the Driver	Driver travels with the car for the agreed period In the end Driver delivers the car on the agreed location	The Owner receives the car and both confirm in the Platform that the service is completed and that everything is OK	The system returns the caution value to the Driver account and tranfers the agreed value to the Owner (minus the 30% margin) The Driver may post a review about the Owner or the vehicle

20

We Cash In

Price

The price is set by the Partners when they register the car and the Platform automatically adds a 30% margin to calculate the final price shown to the Drivers. Although Owners are free to choose whatever price they want, they are periodically influenced by the system with notifications issued to remember them that they should adjust their price per hour in order to stay competitive and increase the probability of increasing sales for their car. This mechanism generates some level of internal competition, pushing Owners to present competitive prices, which brings more added value to Drivers, making the whole ecosystem sustainable and competitive versus competitor alternatives, while protecting and generating more flow of demand, which ultimately brings revenue to Owners and to the Platform.

Kind note: For the purpose of this work the real name of the project will remain confidential, as it is not relevant or essential to the understanding of the concept and proposed strategies.

08. Marketing Objectives

Our goal is to build a strong brand fast, through penetration and widespread communication.

Sales Revenues of a Brand in a period = (Penetration) x (Frequency) x (Quantity) x (Price)

Latest theory tells us that a brand growth path to become big is mainly related with Penetration gains, as Byron Sharp, Professor of Marketing Science in the University of South Australia, explains in his game-changing book "*How Brands Grow*" [VI] published by Oxford University Press in 2015. This means more focus on Reach, on wining new consumers, than

on investing to change the Frequency, Quantity and Price of what they buy. With that in mind the Marketing Objectives for the Platform were set: **# 1 / Marketing Market Objective**: <u>Gain penetration among Tourist Drivers</u> coming from Portugal, UK and Germany who want to rent a car to travel in Madeira, Norte, Centro, Alentejo and Azores, by showing them that this platform is the easiest and coolest way of driving the car they want and have the freedom to explore. Target Year 1: Get 17.500 active users in the Platform. **# 2 / Marketing Market Objective:** <u>Gain penetration among Owners of stands of used cars</u> that want to monetize the cars they already own by showing them that this platform is the easiest way to increase their revenues by renting the cars they cannot sell. Target Year 1: Get 3.500 cars registrations.

 # 3 / Marketing Communication Objective: <u>Become known as a top cool, simple and innovative brand</u> of Car Rentals by showing it in our aspirational communication.

Targets Year 1: **(1)** Reach 10.000.000 Unique Video Views through Facebook Reach & Frequency Campaigns, **(2)** Reach in average the 3rd position in Google results page (within our target criteria), **(3)** Get better evaluated than the competition on the dimensions of "process simplicity", "cool trendy image" and "general satisfaction" on a consumer study to be performed on Tourists that used our Platform.

"Perception is reality" – *Lee Atwater*

Former Strategy Advisor of Ronald Reagan and George W. Bush Senior.

09. Communication Strategy

Perceived Value = Perceived Benefits (Emotional + Functional) / Perceived Price

This is perhaps the most fundamental equation of Marketing Science and it means that if the Perceived Benefits are raised or the Perceived Price is reduced, Perceived Value for the Consumer increases. Emotional/Aspirational benefits are normally harder to evaluate, so big brands often use this kind of communication in order to increase price while maintaining the same value. GoPro or Apple for example compete on much more than just "one more Megapixel" or "50% discount". Being the Rent-a-Car Market relatively commoditized the

way to add value is through increasing emotional/aspirational benefits. Further price reduction destroys market value and communicating functionality is not so impactful, since consumers take acceptable performance as a granted minimum. In that line of thought was designed a brand communication idea with an aspirational tone of communication, including graphics, color and sounds, with a specific strategy of channels to deploy it.

Brand Communication Idea: "Find Your Path"

Tone of Communication: "Emancipated explorers that live adventures"

The result in visuals and video will be similar to the mood of the examples below:

"Make Life a Ride" – BMW Ad: https://www.youtube.com/watch?v=w9R6K1mecEE   Figure 5

Channels Strategy: Bet our media investment in few channels and narrow consumer segments, ensuring stronger promotional pressure than our competition on those.

Communications are deployed in two channels, Google and Facebook, through Google AdWords campaigns and Facebook Reach & Frequency video campaigns. Investment should be focused on these channels and on two geographical criteria. In geographic terms, we define the target as the intersection of two pieces information: **(1)** The location/country from where the user is searching from and **(2)** The end destination used to search for a car to rent. On the first one, buy only search terms related to the Top 3 Tourist locations/countries of origin: Portugal, UK and Germany, that together represent 57% of the Total Tourist Volume[6]   that comes to Portugal. On the second one, define the engine to target users that search for renting

a car in destinations related to Madeira, Norte, Centro, Alentejo and Azores, that together represent 42% of the Total Tourist Volume per destination[6], less than Algarve and Lisbon which count for 58% of the Volume[6] (which are in theory more likely for the competition to focus on in terms of media investment and business development). Following this strategy we will be targeting 24% of the Total Tourist Market that visits Portugal, in a smart way (42% of 57% = 24%), increasing the chances of displaying more media pressure versus the competition, and achieving higher rankings on Google search results, that ultimately lead to more visibility, clicks and transactions.

10. Business Growth Model

The Business Model explains how we will grow in scale and build further competitive advantage. There are 4 pillars that leverage our Virtuous Growth **Business Model:**

Invest more   Convert more   Win more   Attract more

| Digital Media Pressure | Amplify content | Drivers | Generate more transactions | Scale | Generate more money | Investment |

+

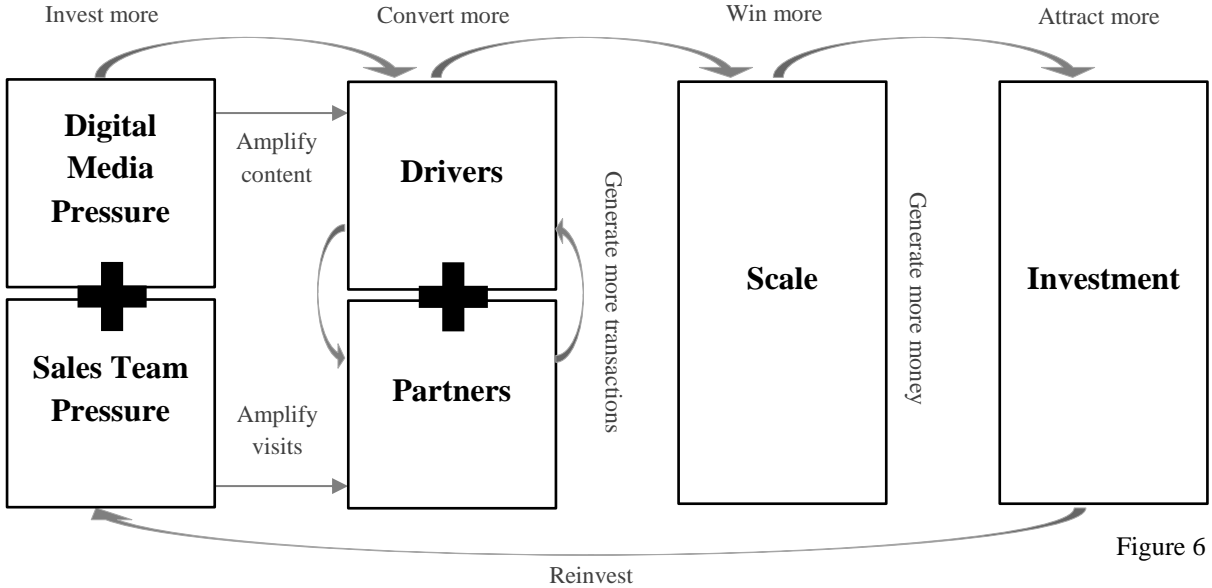| Sales Team Pressure | Amplify visits | Partners |

Reinvest

Figure 6

Description: As we invest more in promoting aspirational content with paid media (over our market fair share), we get more awareness, more brand equity and more Drivers to use our platform to rent a car. The more we invest in our sales team efforts and increase the coverage of sales visits to stands or contacts to users of online used car platforms, the more Partners we recruit, increasing the number and the variety of cars in our pool. Increasing the number of drivers and cars, the number of transactions (rental contracts) increases. When this happens

we generate more money and increase our scale in size. The bigger we become (in sales and number of users) the more investment we attract and the more Network effect we generate, leading to further competitive advantage (as the base of users gets larger and larger the more difficult it gets to other traditional rent-a-car or mobile players to do business). The effect of this growing sharing economy ultimately leads to digital disintermediation, driving traditional intermediaries like the Rent-a-Cars, out of business. The more money we get (from sales and additional investment), the more we reinvest to leverage the Business Model and repeat this virtuous circle of growth.

11. SWOT Analysis

Having identified the Context (External: Market and Consumer) and Business Idea (Internal: Proposition and Strategy), what are the Strengths and Weaknesses that our Platform has versus the competition, and what Opportunities and Threats we should be ready to face?

	Strengths	Weaknesses
Internal	**(1)** Lower cost structure – Absence of car fleet and having and small team, means higher margin to invest in Advertising and possibility to have lower prices. **(2)** Broader scope of business and offer - A 100% Digital Platform is not geographically limited by physical points of sale and can offer an unlimited variety of vehicles. **(3)** Being a native mobile solution – We are where consumers are in a mobile world, and can focus most of our investment on digital.	**(1)** The Platform is an unknown brand yet to build - Versus well established traditional Rent-a-Car brands. **(2)** Lower control over prices and car quality/availability – Being a Platform that owns no vehicles, it is more dependent on third party behavior.
	Opportunities	**Threats**
External	**(1)** Drivers are unsatisfied with the complexity of existing car rental offerings. **(2)** Local traditional companies are underdeveloped in terms of e-commerce. **(3)** There is a large supply pool of used cars in Portugal which are parked 90% of the time and favorable economic conditions to attract Owners to try new alternative sources of income. **(4)** There is no reference brand in Digital Peer-to-Peer Car Rental in Portugal and we may conquer the first mover advantage. **(5)** There is no local player currently communicating on an Emotional/Aspirational tone, which may be a source of differentiation	**(1)** A disproportionate reaction from incumbent players in terms of price, communication and specially legal processes. **(2)** Entry of a new Digital Peer-to-Peer Car Rental Platform in Portugal with larger scale and resources than us. **(3)** Peer-to-Peer Car Rental is yet a relatively unknown concept for consumers, Drivers and Partners, which may not be well accepted.

Table 2

More dependent on Internal Variables

<div>

(1) Get a sharp product ready to ship (Phase 1)

(2) Recruit the right Team

(3) A successful Pilot Test to prove concept (Phase 2)

(4) Develop engaging Communication Assets

(5) Guarantee Demand and Supply since moment one

</div>

More dependent on External Variables

<div>

(6) Get 3rd Party Funding to Scale (Phase 3)

(7) Find Quality Suppliers with the right cost

(8) Get Traction of users in the Platform

(9) Ensure Time-to-market

(10) Consumer Acceptance of the Concept

(11) Have resources for defense in case of legal battles

</div>

Table 3

C. ACTION PLAN – "Play to Win"

13. Entry Strategy and Partnerships

The Strategy is to start small and from there build strong a market position region by region. After getting the Product and the Team (Phase 1) is time to enter the market, first with a Test Period (Phase 2), to prove the concept in a small scale, and then by a Scaling Period (Phase 3), to boost the size of the business, already with 3rd party investments. **Phase 2: (1)** Start by tackling Madeira, it has scale and represents 14% of the Market[6], but it is less obvious than Lisbon or Algarve (that weights 58%)[6], which means it will attract less attention of the competition. **(2)** Establish entry partnerships with local Hotels and Hostels to generate trust. **(3)** Guarantee Supply at launch by getting 20 cars in good shape owned by the Team members and their network. Start contacting local stands and people who are selling cars in Madeira through online platforms like Stand virtual. **(4)** Guarantee Demand by activating in the main streets, targeting Tourists with promoters that offer a free day of car rental in exchange of installing the App, and by localized Facebook Reach & Frequency Video Campaigns that also redirect consumers to install the App. **Phase 3:** Initiate contacts with Investors to close a Round 1 of Investment and scale the business. One of these investors may be a Top Attorney's Office in Portugal as a way to guarantee defense in case of expensive legal battles with the competition. **Final Note:** Being a geo-localized business where supply and demand must coexist at the same time and place, the focus should be set by region: first conquer a

relevant market share in Madeira and only then expand to other places. By order the next targets should be Norte (13%), Centro (9%), Alentejo (3%), Azores (3%) and only then try to capture the larger and more competitive markets of Algarve (33%) and Lisbon (25%)[6].

14. Time, Team and Money

Time:

Stage	Type of Funding	2016				2017						2018		
		Q3		Q4		Q1		Q2		Q3		Q4	Q1	Q2
Phase 1 - Product Development	Self-funded													
Phase 2 - Test Period	Self-funded													
Phase 3 - Scaling Period	Round 1 of Investment													

Table 4

Team: Guarantee on a full time basis the following Human Resources:

(Phase 1) A Marketing Manager and a Programmer (Founders), plus outsourcing of main product development and support functions like Accounting and Customer Support;

(Phase 2) Recruit 2 Sales Executives and **(Phase 3)** Recruit 2 more Sales Executives.

Money: Bellow the P&L projection for the first 2 years of operation:

P&L	2016 Phase 1 - Product Dev.		2017 Phase 2 - Test Period		Phase 3 - Scaling Period		2018		TOTAL
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Full Year Phase 3
Total Revenues	0 €	0 €	75.000 €	142.500 €	412.500 €	682.500 €	1.042.500 €	1.402.500 €	3.540.000 €
Active Cars in the Platform	0	20	200	380	1.100	1.820	2.780	3.740	9440
Active Drivers in the Platform	0	0	1.000	1.900	5.500	9.100	13.900	18.700	47200
Car Rental Days	0	0	3.000	5.700	16.500	27.300	41.700	56.100	141600
Cost of Goods Sold	0 €	0 €	58.500 €	111.150 €	321.750 €	532.350 €	813.150 €	1.093.950 €	2.761.200 €
Car Owners Margin (70%)	0 €	0 €	52.500 €	99.750 €	288.750 €	477.750 €	729.750 €	981.750 €	2.478.000 €
Car Insurance	0 €	0 €	6.000 €	11.400 €	33.000 €	54.600 €	83.400 €	112.200 €	283.200 €
Gross Profit	0 €	0 €	16.500 €	31.350 €	90.750 €	150.150 €	229.350 €	308.550 €	778.800 €
Fixed Costs	18.000 €	15.000 €	28.650 €	31.650 €	47.000 €	47.000 €	51.000 €	51.000 €	196.000 €
Salaries	8.400 €	8.400 €	16.800 €	16.800 €	25.200 €	25.200 €	25.200 €	25.200 €	100.800 €
Marketing and IT Team	8.400 €	8.400 €	8.400 €	8.400 €	8.400 €	8.400 €	8.400 €	8.400 €	33.600 €
Sales Team	0 €	0 €	8.400 €	8.400 €	16.800 €	16.800 €	16.800 €	16.800 €	67.200 €
Office Rent (In a Start Up Incubator)	1.050 €	1.050 €	1.050 €	1.050 €	1.050 €	1.050 €	1.050 €	1.050 €	4.200 €
Equipment	3.000 €	0 €	0 €	0 €	950 €	950 €	950 €	950 €	3.800 €
Platform Maintenance (Outsource)	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	12.000 €
Customer Sup. & Account. (Outsource)	1.800 €	1.800 €	1.800 €	1.800 €	1.800 €	1.800 €	1.800 €	1.800 €	7.200 €
Other Costs	750 €	750 €	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	3.000 €	12.000 €
Marketing Investment	0 €	0 €	3.000 €	6.000 €	12.000 €	12.000 €	16.000 €	16.000 €	56.000 €
Total Expenses	18.000 €	15.000 €	87.150 €	142.800 €	368.750 €	579.350 €	864.150 €	1.144.950 €	2.957.200 €
Earnings Before Taxes	-18.000 €	-15.000 €	-12.150 €	-300 €	43.750 €	103.150 €	178.350 €	257.550 €	582.800 €
Taxes	0 €	0 €	0 €	0 €	9.188 €	21.662 €	37.454 €	54.086 €	122.388 €
Net Profit	-18.000 €	-15.000 €	-12.150 €	-300 €	34.563 €	81.489 €	140.897 €	203.465 €	460.412 €
Cost of Car Acquisition	0 €	0 €	42,00 €	22,11 €	15,27 €	9,23 €	6,04 €	4,49 €	7,12 €
Cost of Driver Acquisition	0 €	0 €	7,20 €	5,37 €	2,95 €	1,78 €	1,45 €	1,08 €	1,54 €

Total Revenues
Total Expenses

Table 5

Initial Investment is to be self-funded by the Founders, comprising Phase 1 and 2, and a value of 93.300 €, with a Payback Period of 15 months. **Round 1 of Investment** is to be funded by External Investors on Phase 3, on a valuation of 196.000€, in exchange for 49% of

the Equity of the Company and a Payback Period 12 months. **The Project** is expected to reach Breakeven after 15 months (Q3 of 2017), and deliver Revenue**s** of 3.540.000 euros with a Net Profit Margin of 13% in the 2nd Full Year (Phase 3).

Important Assumptions: **(1)** Average rental duration is 3 days, in line with the Market[15], **(2)** Average car revenue per day is 25 €, in line with Market[*], **(3)** A car on the Platform performs 20 car rental contracts a year, 1/5[****] of Market average, **(4)** A Sales Executive gets between 1 and 2 active car registrations per day, **(5)** Insurance per car costs 2€ a day.

15. Risk Scenarios and Contingency Plan

Below are identified the Top 3 Risk Scenarios and respective Contingency Plans:

Table 6

Risk 1: Poor acceptance of the concept by Tourist Drivers	**Risk 2:** Not being able to get proper funding on Round 1 of Investment (Phase3)	**Risk3:** Not being able get an Insurance Company willing to create a tailor made insurance product for short term renting, due to our low negotiation power in the beginning.
Contingency Plan: Change the business model and migrate to offering only high end cars, which represent almost 25% of the Portuguese used fleet and guarantee a differentiated offer versus competition.	**Contingency plan:** Change efforts to focus on alternative sources of funding such as European Funding Programs of "Portugal 2020" or Crowdfunding Platforms like "Kickstarter" and "Indiegogo".	**Contingency Plan:** Focus only on cars that already have insurance with extra coverage. According to an anonymous source of a big insurance company, these represent 60% of cars with less than 5 years .

16. Conclusion and Next Steps

Using a set of Strategic Principles and the frameworks of Blue Ocean Strategy, we found a route of differentiation to enter and disrupt the traditional Rent-a-Car Market in Portugal. We did it with an innovative Mobile Peer-2-Peer Car Rental Platform that creates Value for the Consumer and ensures sustainable competitive advantage. This was achieved by recreating the scope of product to pursue both differentiation and low cost, by rethinking the functional orientation of the Industry and by shaping the powerful trend of sharing economies. For the future, timing is everything. The best defense versus new generation entrants will come from capitalizing the first mover advantage and capture a large base of consumers, with a mindset of learning fast, failing fast and scaling fast. Next steps in the short term will pass by a total focus on delivering Phase 1 and 2 of this ambitious journey.

17. References

Articles and Books:

I - **Sahlman, A. William.** 1997. "How To Write a Great Business Plan." Harvard Business Review: Pages 99-108

II - **Kotler, Philip, Et Al**. 1999. *Principles of Marketing*. 2nd European Edition. Prentice Hall Europe

III - **Kahnman, Daniel.** 2011. *Thinking Fast, and Slow*. Farrar, Straus and Giroux

IV - **Schartz, Barry.** 2014. *The Paradox of Choice Why More is Less*. Harper Perennial

V - **Kim, W. Chan, and Mauorgne, Renée.** 2005. *Blue Ocean Strategy: How to Create Uncontested Market Space and Make the Competition Irrelevant*. Harvard Business School Publishing Corporation

VI – **Sharp, Byron.** 2015. *How brands grow: what marketers don't know*. Oxford University Press

Web Sites:

1 – **[Económico].** 2016. http://economico.sapo.pt/noticias/mercado-de-rentacar-em-portugal-preve-crescimento-de-4-para-470-milhoes-de-euros_204722.html [Accessed in 26/02/2016]

2 - **[Fleet Magazine].** 2016. http://fleetmagazine.pt/2015/06/24/rent-a-car-portugal/ [Accessed in 26/02/2016]

3 - **[Simplicity2015.wpengine].** 2016. http://simplicity2015.wpengine.com/wp-content/uploads/2015/11/2015-Global-Brand-Simplicity-Index-eBook1.pdf [Accessed in 13/04/2016]

4 - **[Auto Informa].** 2016. http://www.autoinforma.pt/estatisticas/estatisticas.html?MIT=36458 [Accessed in 26/02/2016]

5 - **[Setis.ec.europa].** 2016. https://setis.ec.europa.eu/system/files/Driving_and_parking_patterns_of_European_car_drivers-a_mobility_survey.pdf [Accessed in 28/04/2016]

6 - **[Impresa].** 2016. http://cdn.impresa.pt/6a8/85f/8252830/Analise-Regional_dezembro-2015.pdf [Accessed in 01/03/2016]

7 - **[Oje].** 2016. http://www.oje.pt/rent-a-car-regiao-de-lisboa-domina-o-mercado/ [Accessed in 27/02/2016]

8 - **[Opcao Turismo].** 2016. http://opcaoturismo.pt/wp/?p=21198 [Accessed in 27/02/2016]

9 - **[Google Trends].** 2016. https://www.google.com/trends/explore#q=rent%20car%2C%20rent%20a%20car%2C%20alugar%20carro&_geo=PT&date=1%2F2012%2049m&cmpt=q&tz=Etc%2FGMT-1 [Accessed in 25/03/2016]

10 - **[Google Apis].** 2016. https://think.storage.googleapis.com/docs/how-advertisers-can-extend-their-relevance-with-search_research-studies.pdf [Accessed in 25/03/2016]

11 - **[The Verge].** 2016. http://www.theverge.com/2015/10/8/9480779/google-search-mobile-vs-desktop-2015 [Accessed in 25/03/2016]

12 - **[Fleet Magazine]. 2016**. http://fleetmagazine.pt/2014/06/05/2014-06-05-22-58-23/?option=com_content&view=article&id=783:2014-06-05-15-05-02&catid=53:gestoras&Itemid=70 [Accessed in 07/02/2016]

13 - **[Fleet Magazine].** 2016. http://fleetmagazine.pt/2016/01/18/rent-car-2015/ [Accessed in 25/02/2016]

14 - **[Económico].** 2016. http://economico.sapo.pt/noticias/empresas-de-rentacar-registam-taxas-de-aluguer-acima-de-80_175822.html [Accessed in 27/02/2016]

15 - **[Publituris].** 2016. http://www.publituris.pt/2014/07/04/rent-a-car-investe-e-factura-mais-em-2014/ [Accessed in 20/02/2016]

16 - **[Dinheiro Vivo].** 2016. https://www.dinheirovivo.pt/economia/venda-online-de-viagens-gera-97-mil-milhoes-de-euros-no-mercado-iberico/ [Accessed in 19/03/2016]

17 - **[Imtt].** 2016. http://www.imtt.pt/sites/imtt/Portugues/Legislacao/Nacional/Actividadesauxiliarestransporte/aluguersemcondutor/Paginas/AluguerSemCondutor.aspx [Accessed in 10/05/2016]

18 - **[Dre].** 2016. https://dre.pt/application/dir/pdf1s/2012/08/15100/0410504110.pdf [Accessed in 10/05/2016]

19 - **[Deloitte].** 2016. http://www2.deloitte.com/content/dam/Deloitte/au/Documents/manufacturing/deloitte-au-mfg-2014-global-automotive-consumer-study-changing-nature-mobility-290914.pdf [Accessed in 19/03/2016]

20 - **[Cetelem].** 2016. https://www.cetelem.pt/images/ctlmpages/naomexer/estudo_obs12.pdf [Accessed in 19/03/2016]

21 - **[Google Trends].** 2016. https://www.google.pt/trends/explore#q=rent%20a%20car%2C%20rent%20car%2C%20alugar%20carro%2C%20avis%2C%20europcar&geo=PT&date=1%2F2013%2037m&cmpt=q&tz=Etc%2FGMT [Accessed in 25/03/2016]

22 - **[Deco].** 2016. http://www.deco.proteste.pt/familia-vida-privada/ferias-lazer/noticia-flash/empresas-de-rent-a-car-maiores-no-fundo-da-tabela [Accessed in 02/03/2016]

23 - **[Blue Ocean Strategy]**. 2016. https://www.blueoceanstrategy.com/tools/ [Accessed in 07/05/2016]

24 - **[Económico].** 2016. http://economico.sapo.pt/public/uploads/especiais_sp/Especial_1000_Maiores_Empresas_2_Dezembro_20151.pdf http://economico.sapo.pt/public/uploads/especiais_sp/Especial_1000_Maiores_Empresas_3_Dezembro_2014.pdf [Accessed in 26/02/2016]

25 - **[Jornal de Negócios].** 2016. http://www.jornaldenegocios.pt/empresas/automovel/detalhe/avis_adquire_budget_international_por_214_milhoes_de_euros.html [Accessed in 26/02/2016]

18. Appendix

* - 542.000.000 euros (2015 Market Revenues) / 75.000 cars = 7227 euros of revenue that each car generated in 2015.

7227 euros / 292 days (number of days a car is normally rented/occupied a year) = 25 euros of daily average revenue per car

** - 75.000 cars x 292 days (365 days x occupancy rate of 80%) / 3 days (average market duration of a car rental contract) = 7.300.000 contracts a year (total number of car rental contracts performed in 2015)

*** - Assumptions: (a) Europcar, Hertz and Guerin sales remained constant since the last periods available. [24]

(b) Avis and Budget values market shares remained constant since the last period available. [25] Values for each one were then calculated accordingly: Value Market Share of a Company = Company Value Sales / Market Value Sales

**** - 7.300.000 rental contracts a year / 75.000 cars = each car in the market performs in average 97 contracts. Assumption: Cars in our platform only 20 contracts. 20/97 = 20% (the average number of contracts that a competitor car performs in a year) = 1/5