

## **Enterprise Rent-A-Car Canada Pre-Budget Submission to the House of Commons Standing Committee on Finance, August 2011**

### **Executive Summary:**

The Government of Canada has indicated its intention to tackle the deficit primarily through restraining growth in direct program spending and undertaking a comprehensive review of government administrative functions and overhead costs, including travel and hospitality expenditures.

The Federal Government can realize significant cost savings on vehicle rentals by emulating best practices used by other governments and major private-sector fleet operators. In this submission, we outline and recommend three specific actions:

- Mandate the use of the National Rental Car Directory by officials to achieve cost savings;
- Monitor and manage the use of the 'grey fleet' to generate costs savings; and
- Reduce the size of government vehicle fleets and "right-size" them.

With more efficient use of rental vehicles and better implementation and monitoring of best practices, we believe the Government would save significant money, expand and improve the delivery of safer and more convenient services to employees, and further government fleet-management fuel-consumption objectives.

### **When You Negotiate Competitive Rates, Why Not Mandate Them?**

Government of Canada transportation needs are met by air, rail and its own departmental vehicle fleets. These fleets are supplemented by taxis and daily and long-term vehicle rentals. The total rental-car expenditure is unclear, but the Governments' own numbers suggest that daily rental costs amount to about \$35 to \$40 million annually.

#### ***Accommodations and Rental Car Directory***

Each year, Public Works and Government Services Canada issues two Requests for Standing Offers<sup>1</sup> which the car rental industry responds to by providing fixed daily rental quotes for more

---

<sup>1</sup> One RFSO focuses on the 15 cities in Canada which constitute 80% of the rentals. The three top vendors for airports and community are selected and ranked based on price. The second RFSO covers the remaining communities. Vendors are still ranked by price, but all eligible bidders may be listed. Individual departments will also release tenders to cover their specific needs (e.g. DND bases)

than 200 locations across Canada. The qualified bids are ranked according to price and listed in the Accommodations and Rental Car Directory, available online to public servants and anyone else who wants to view the government rates (<http://rehelv-acrd.tpsgc-pwgsc.gc.ca/index-eng.aspx>). There have been a number of improvements in the directory in recent years and the industry bidding is now highly competitive. The rental-car industry is competing on price for each vehicle type in each community and airport location across Canada. Preparing these bids, evaluating them, and updating the directory represent a significant cost and effort by both the rental car industry and the Government.

The Government of Canada has done such an effective job with the Federal Rental Car Directory that the Ontario Government has exercised an option to forgo its own competition and piggy-back on the federal directory. To take full advantage of the cost savings offered by the directory, the Ontario Government has also implemented a hard mandate requiring all employees to use the directory for every booking. In the case that a renter wishes to select a supplier not on the directory, a request must be made to his/her immediate supervisor for approval.

The Government of Canada, despite the excellent work it has done on the directory, does not currently have a similar mandate in place. As a result, significant cost savings go unrealized.

As it stands today, federal officials who make their reservations through the Government Travel Service are directed to the lowest cost vendor for each city. However, according to the PRGSC's own statistics, only 25% of daily rental volume is currently booked through this cost-saving channel.

By contrast, when large corporations negotiate preferred rates with the rental-car industry, their employees are mandated to use the vendors selected.

A recent survey of 689 travel managers across North America indicated that 71% of them mandate the use of rental-car vendors. Fully 91% of the largest organizations mandate the use of specific rental-car vendors.<sup>2</sup>

We recognize that the Government of Canada may be somewhat limited in its ability to impose strict mandates on its unionized workforce because of collective bargaining. However, it may want to renegotiate those agreements in the future to allow for this flexibility. Meanwhile, the Government *can* mandate that its executive employees (who do the bulk of travelling) use the directory.

### **Recommendation #1**

---

<sup>2</sup> National Business Travel Association, Corporate Travel Policy: Benchmarking and Insight An Industry-Wide Research Study, July 2010

**If the Government of Canada wishes to reduce the cost of its daily rentals, it must continue to negotiate competitive rates and then mandate their usage.**

### **Reduce the Size of the “Grey Fleet”**

The term “grey fleet” refers to business miles driven by employees in their own vehicles and then claimed back at a fixed mileage rate. It is called “grey” because the vehicles that fall under this category in many respects are a grey area of responsibility. Since there are no public numbers on the Government’s “grey fleet,” we do not know its size. However, based on other governments’ experience, it is likely to be significant. The U.K. government has suggested its “grey fleet” constitutes 57% of its total road mileage.

A typical best practice in the corporate sector is to establish a policy where employees must use the least expensive travel option available, whether their own car or a rental. While the arithmetic may vary depending on the details, at the current Government of Canada kilometre reimbursement rate of \$0.57, the break-even point is approximately 90 kilometres. Typically, corporate-sector businesses manage this expense through their travel policy and provide flexibility. For example, in the case of a 90 kilometre break-even, they may give employees the option to use a personal vehicle up to 130 kilometres a day.

Given the potential size and resulting cost of its “grey fleet,” we recommend that the Government of Canada establishes a policy that states that employees must use the least expensive travel option available – whether their own car, or a rental.

The Government of New Brunswick has had such a policy in place since 2006:

*“Whenever practical, employees are expected to travel by the most direct route and use the most economical means of transportation, considering the travel time involved. Management, employees and individuals covered under this policy are responsible to determine the least expensive option for travelling on government business. Depending on the distance travelled, rental vehicles are often the most economical option.”*

New Brunswick provides mileage charts that suggest which trips can be done in personal vehicles and which should be done via rental cars. Most large corporations use free, easy-to-use mileage calculators, and allow employees to plug-in rates and distances and calculate the most cost-effective option of rental vs. personal vehicle use.<sup>3</sup>

---

<sup>3</sup> We would be happy to provide the tool and examples of how it works.

Corporate experiences in this area have demonstrated that by having a complete policy within the travel component, the use of the “grey fleets” generates annual savings in the 30% to 50% range when measuring against the current kilometre reimbursement.

### **Recommendation #2**

**The Government of Canada should establish a policy that clearly states that employees must use the least expensive travel option available** – whether their own car or a rental. It should support this policy with easy-to-use tools and proper supervision. Naturally, it will be important to allow exceptions based on specific employee needs.

### **Reduce and Right-Size Government Fleets**

When government or private-sector organizations manage their own fleets, they typically encounter a series of issues that undermine the benefits of owning vehicles outright. In contrast, shifting completely or partially to a rental-car option brings a series of benefits to government fleet management.

For the reasons listed below, governments should consider using rental-car companies to replace smaller or older fleets or to provide surge capacity for larger fleets. Consider the facts:

#### ***Fleet ownership & management challenges:***

- **Higher overhead cost / safety and environmental concerns:** Government fleet operations are often not fully costed and tend to understate overhead costs and the capital cost of replenishment. Because government fleets are frequently under-capitalized, cars are too old. This raises maintenance management, environmental and safety issues. These problems are exacerbated by pressures to reduce operational budgets.
- **Cost of maintaining unused vehicles:** Having a sufficient number of vehicles to meet internal demand means underutilization by design. Vehicles bought to meet surges of demand will be unused a good part of the time. Government fleets are not typically used in the evenings and weekends. Government fleet managers are not in a position to fully monetize their assets.
- **Inability to match supply and demand:** Because expanding and contracting fleets is hampered in government by the slowness of forecasting and purchasing procedures, the ability to match supply and demand over time becomes a problem. Government employees frequently have trouble accessing a vehicle or the right type of vehicle at the right time.

- **Fuel-efficiency constraints:** Having a fleet available means that the most fuel-efficient cars are not always the ones that are available, and there is often more horsepower in the lot than is required. This undermines governments' fuel-consumption objectives.
- **Personal vehicle use:** It is not uncommon that a level of personal use is buried in the operation of vehicle fleets. Cars can get driven back and forth to work by managers and on personal tasks. The practices for one level of the organization become the precedents for the layers below. A sense of entitlement about the vehicles and the fleet becomes institutionalized in the organization. While contrary to official policy, it comes to be seen as a 'perk' of the job.

***Rental car benefits:***

- **Large fleet, large selection:** Assuming a minimum local presence, car-rental companies can provide multiple locations and a large fleet to meet government requirements.
- **Flexible fleet size, based on need:** Large car-rental companies have buying power that matches or exceeds that of government. Vehicles are turned over rapidly, and rental providers can easily ratchet supply up or down based on demand. This provides government with a flexible fleet size at any given time. For example, Enterprise Holdings has 637 offices across Canada and a fleet of 51,377 vehicles. Our average hold time varies a little by car class, but averages 10 to 11 months. We are able to shift units among our network of offices in order to create efficiencies and meet demand. If we have a surge in business, we have the resources and local authority to purchase additional inventory at any point.
- **Well-maintained, clean vehicles:** Maintenance and cleanliness standards are often higher because these same cars are used in the highly competitive rental car marketplace.
- **Excellent fuel efficiency:** When the right (and newer) vehicle is used for the right task, fuel consumption improves.
- **Drop in personal usage:** Without having to make it an issue, independent third-party reporting and the increased potential scrutiny that this implies tends to strip out the personal use of government vehicles. Mileage levels and fuel consumption always drop.

There will always be reasons why some government departments and agencies require their own operational vehicles. The RCMP and the Correctional Service of Canada need vehicles that can transport prisoners. Parks Canada and Fisheries and Oceans Canada need heavy-duty vehicles for some of their duties. However, most government travel is not special in nature. It is routine driving in the performance of routine tasks: meetings, client visits, etc.

While the Government of Canada does have a policy pertaining to its fleet (which has been successful when applied<sup>4</sup>), it is not commonly followed.

### **Recommendation #3**

**The Government should more effectively implement existing policy by making it easier for rental-car companies to set up satellite offices in or near major government office complexes.**

This has been done successfully in Canada.

### **Key Success Factors**

We have submitted for your consideration a few small changes to the execution of existing policy that we believe can help the Government of Canada achieve significant cost savings.

To ensure success in implementing these recommendations, please consider the following:

1. **Policy must be implemented and compliance driven**, or those who are using reimbursement as a revenue-stream will continue to do so. Managers have to take responsibility for enforcing the program. There has to be effective auditing and enforcement.
2. **Government must emphasize the benefits**. Overall employee satisfaction increases, as public servants are driving newer vehicles, have the security of 24-hour roadside assistance and their own personal insurance is not at risk.
3. **Procurement of the rental vehicle must not be a hardship for employees**.
  - Pick-up service or delivery from the rental company is crucial.
  - The satellite office concept suggested above is another way in which to make renting more convenient for employees.
  - The government should also consider implementing an hourly rental scheme that allows employees, through the use of modern technology, an effective alternative to using their own vehicles. These vehicles can be provided at or close to the employees' workplaces and can be used for everything from pre-planned business travel to last-minute requirements. (Please visit the attached link

---

<sup>4</sup> In the Pacific Region, the regional headquarters of Public Works and Government Services Canada, in the late 1990s, replaced its 20-car fleet with rental cars from one of our competitors. This resulted in the use of more fuel-efficient cars, a decrease of more than 50% in overall mileage, and a CO<sub>2</sub>E reduction of more than 60%. In another instance, the National Capital Commission reduced the size of its fleet from 29 cars to eight and made much greater use of taxis and rental cars from Enterprise for both longer use and daily terms. The results after two years were a 17% reduction in mileage, 20% reduction in costs and a 16% reduction in CO<sub>2</sub>E emissions.

[http://www.wecar.com/content/car-sharing/en\\_US.html](http://www.wecar.com/content/car-sharing/en_US.html) on Enterprise's WeCar service for more details on this type of the service.)

4. **Employers must be prepared** for some employee resistance, as many will feel that an entitlement has been taken away.

### **About Enterprise Rent-A-Car Canada**

With annual revenues of \$12.6 billion and more than 68,000 employees, we operate, through our regional subsidiaries, more than one million cars and trucks, making us the largest car rental service provider in the world measured by revenue, employees and fleet.

First established in Canada in 1993, today the company employs more than 4,100 people directly, and our activities have a direct and indirect impact on the Canadian economy of close to \$1.9 billion. Enterprise spends in excess of \$1 billion a year in Canada on vehicle purchases and local business-related expenses. The company has been named by *Report on Business* magazine as one of the 50 Best Employers in Canada.

Enterprise is recognized for its industry environmental leadership through its commitment to:

- Operating the world's most fuel-efficient fleet;
- Our customer carbon-offset program;
- Embracing new engine and fuel technologies;
- Funding research into renewable fuels; and
- Our support of conservation and preservation efforts.

Having ranked consistently at or near the top of most vehicle categories for successive years under the Government of Canada's National Standing Offer rental-car program, Enterprise Rent-A-Car has become a significant supplier of rental cars to the Government on the basis of its competitive pricing and service.

*Contact: Robert Shaw, Director- Strategic Accounts, Office: 416-798-8687 ext. 277; Fax: 866-741-4900; Email: robert.shaw@ehi.com*