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DriveMyCar founder **Daniel Noble** takes to the road

PROFIT DRIVE

Car-sharing revs up across the globe

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THE GREAT PROFIT

Smart cars from Daimler's Car2Go scheme in the German city of Ulm

DRIVE

Car-sharing schemes are springing up all over the planet – but a decade after the idea took off, will any of them ever turn a profit?

By **John-Paul Flintoff**

Daniel Noble thought the idea was ridiculous. He was with a friend who owned a car. She said she regularly allowed a neighbour to use it during the day, while she was at work. In return, the neighbour paid her as much as it cost to run the car. In other words, owning a car was actually profitable, and Noble's friend still had the use of her vehicle when she needed it.

Could Noble, a serial entrepreneur based in Sydney, turn this into a business? Why not rent out his own car, the friend suggested, and other people's cars too? No way, he said. Let a stranger drive his car? What was she thinking? It was positively un-Australian, he laughs, talking to *CNBC Business* in the high-end hotel where he's staying in London's Mayfair. A tall man, with a booming voice, Noble is dressed expensively: nothing about him suggests he's the sort of person who'd feel the need to rent out his own car.

But then another friend came back to Australia after months working abroad and told Noble he had rented out his car for the whole time. Noble started to think again. He set up a website (DriveMyCar Rentals) and tinkered with it, putting his own car on it and asking relatives and friends if he might advertise theirs. He waited to see what would happen – and one day in 2009 he got a phone call from a TV company...

Henry Ford brought motoring to the masses. Now his great-grandson Bill is warning that too much car ownership could be disastrous

PICTURE GETTY

In the past few years, car clubs and car-sharing schemes have sprung up all over the world. Some are start-ups that own their fleet; others are websites, like Noble's, that enable private individuals to rent their cars to and from each other. Others still are new ventures from long-established car-rental giants, hoping to emulate the newer models. But how many of these businesses are actually making a profit? The key, everybody agrees, is attaining critical mass, but how long will it take to get there, and how many companies will fail before they manage to do so?

There are several reasons why car-sharing has taken off. One is a growing awareness of environmental pressures and resource constraints, even in an industry that would seem to be threatened by that. Bill Ford, executive chairman of the Ford Motor Company, gave a talk recently in which he stated that it would be a disaster if emerging economies, such as India and China, took up car ownership on the same scale as the US – with about 1.2 cars per licensed driver. Already, the average driver in Beijing faces a five-hour commute, Ford observed, adding that there was recently a traffic jam in China that stretched 100 miles and took 11 days to clear.

It was an unexpected message to hear from a car-maker: you can have too many cars on the road – and when that happens, driving ceases to be convenient or even worthwhile.

His great-grandfather, Henry Ford, started his business with the intention of making cars affordable for all. Perhaps the emphasis should have been on making driving affordable, the younger Ford suggested. And that's something that car clubs, car-sharing schemes and car rental aim to achieve, by offering access to vehicles at hourly and daily rates.

"It's really interesting to me to see a big company thinking like that," says Shelby Clark, founder of RelayRides, a scheme that launched in Boston and San Francisco last December with backing from Google. "If you look to analogous markets, record labels and others have tried to stifle innovation. Car-makers have tried to embrace it. They see this as a shifting landscape. This is not a trend that will go away in a couple of years. In many areas, consumers are rejecting traditional models of ownership in favour of access. The car manufacturers who do well will see this as a fact of life and try to get in front of it."

Car clubs have leaned heavily on environmental messages in their marketing, with claims that one of their own cars has the potential to remove anything from 10 to 20 private cars off the street. And to an extent, the message has worked. But what really made a difference, says Noble, was the global financial crisis.

After setting up his website, he waited months for a real customer to find it. Then the financial meltdown happened, and Noble received a call from Australian TV producers who wanted to do a story about how he was helping cash-strapped Australians to rent out their own cars. Though he had yet to rent out a single car, he said he would be happy to help.

By some miracle, the day before the cameras were due to arrive, a woman did rent a car. After she had returned it, Noble asked her oh-so-casually if she'd had a good experience, and when she said she had he wondered if she might be willing to be interviewed about it. She consented, and within half an hour of the show's broadcast, Noble's site received 14,000 visits. He never looked back – though it would be misleading to suggest that he faced no further difficulties.

RelayRides launched in San Francisco and Boston last December

DriveMyCar Rentals founder Daniel Noble

In their book *What's Mine Is Yours: The Rise of Collaborative Consumption*, Rachel Botsman and Roo Rogers argue that resource constraints combined with technological innovation will see consumers move from acquisition to rental, and not only in motoring. The pair provide plenty of evidence that this is happening already – as does entrepreneur Lisa Gansky in *The Mesh: Six Reasons Why The Sharing Society Will Trump the Ownership Society*.

"Record labels and others have tried to stifle innovation. Car-makers have tried to embrace it"

The market for car clubs and sharing schemes is predicted to grow very fast. According to some estimates, it could be worth as much as $4bn in America and Europe by 2016, and as much again in Asia. But managing that growth won't be easy, and companies that don't grow in a financially sustainable way will disappear.

The biggest car club in the world, Zipcar, was founded a decade ago but has yet to make a profit. It was already the largest club in the US, with 360,000 members, and the second-largest in Britain when it bought out the larger UK club, Streetcar, in April 2010. Now, with more than 500,000 members and 8,000 vehicles in the US, UK and Canada, it can claim to have critical mass – but critical mass in this business is

RelayRides founder Shelby Clark

Vinay Gupta, co-founder of Whipcar

Buzzcar stickers on a family car in France

a permanently shifting target, as Zipcar's rivals are happy to explain.

The traditional car-share model has high fixed costs (see 'The burden of car ownership', p56). To cover the cost of owning and servicing the fleet, and make any profit, cars need to be rented out for 40%-50% of the time on a 24-hour clock, calculates RelayRides' Clark. "In practice, that limits you to dense urban areas, where there are lots of would-be drivers. But there are other areas that could benefit."

Another problem, says Vinay Gupta – co-founder of UK-based Whipcar – is that if businesses such as Zipcar do successfully maximise the use of their assets, a likely consequence will be unhappy customers. "It's great when a car-club parking space opens up near you," he says, "but as time goes on there are more and more members, and as a customer you find it harder and harder to get hold of the car when you need it, because someone else is using it. So it's in the interest of the owners to max out the assets, but that can make a worse customer experience." Naturally, Zipcar tries to avoid this. In London, for instance, it is encouraging the night-time use of Zipcars by public-sector employees, which removes some of the pressure to rent them out at all times during the day.

Meanwhile in the US, a ridesharing app called Zebigo sets up impromptu carpools. The idea is that passengers reimburse the driver for petrol and pay the company 49c per trip, meaning a 13-mile journey costs about $5. Based in Washington state, but due to go national, the initiative is in many ways similar to Seattle's state-funded carpool programme go520 and the French ride-sharing site Covoiturage.

A fast-growing alternative model is peer-to-peer rental (see 'From neighbour to neighbour', right). In just one year, with no above-the-line advertising, Whipcar has more cars under its management than the merged Zipcar and Streetcar combined. And they're not only based in big cities but in 400 different places around the country.

"Peer-to-peer can work in suburban or even rural areas," says Clark. "Growing

FROM NEIGHBOUR TO NEIGHBOUR

Any business that wants to rent out cars has two options. Either spend large sums on a fleet of vehicles or follow the cheaper peer-to-peer model. The beauty of this approach is that it enables companies to become facilitators, so that individual members rent cars to

and from each other, just as eBay allows people to trade directly.

Companies such as Whipcar in the UK, RelayRides in the US, Tamyca in Germany and Daniel Noble's DriveMyCar Rentals in Australia can access vast numbers of vehicles at no expense. And because these 'assets' cost them hardly anything (beyond minor administrative and marketing expenses), they needn't worry if some cars are used only infrequently. In less than a year, Whipcar has more vehicles under its control in the UK than Zipcar and Streetcar combined.

It's interesting to note that Robin Chase, who co-founded Zipcar a decade ago, recently launched a peer-to-peer service, Buzzcar, in the French cities of Lille and Nantes. "It's a space that has exploded over the last year, so it's not a novel thought," she says.

The principal downside, says Shelby Clark of RelayRides, is that users of peer-to-peer rental may need to tolerate vastly different experiences, as they hire cars that inevitably express the personality of many and various owners. If you want the same experience every time, try Zipcar, Hertz or the car manufacturers who rent.

A Mini from Zipcar's fleet in London

up in suburban Denver, my mom had a minivan and about once a month we needed it to carry round six kids and a dog. If car-sharing had existed at the time, we could have had a more fuel-efficient car like a Prius and borrowed a larger car, when we needed it, from a neighbour."

In peer-to-peer rental, the owner of the car is responsible for the success of their own business."We give them the tools to market their cars – leaflets and stickers and a URL to use in social networks," says Gupta. Crucially, owners must build relationships with renters."We have a guy who, in eight months, has earned more than £3,000 renting out his car. He's made ownership profitable. And he got about 80% of his business from one person."

The peer-to-peer idea has been kicking around for a decade, but for a long time it didn't get anywhere."Insurance was the key bottleneck,"says Sunil Paul, the founder of California-based Spride."The biggest problem is that personal insurance for cars specially prohibits commercial use of private vehicles."Paul's company had to persuade the California legislature that changing the law would enable a revolution in car-sharing.

The biggest car club in the world, Zipcar, has been going for a decade but has yet to make a profit

In Australia, Noble too was halted, for a while, by insurance. Of the 14,000 who visited his site after it was mentioned on TV, many complained that they would not be allowed to rent out their cars."I went to every underwriter and they told me to get lost."Eventually he found one who was willing to listen, and Noble demonstrated that his business could be very profitable for an insurer, because Noble won't rent to people with a

THE BURDEN OF CAR OWNERSHIP

Zipcar co-founder Robin Chase

Around the time of the 70s oil crisis, the Austrian philosopher Ivan Illich pointed out something astonishing about cars: they hardly move their owners around any faster than bicycles.

This makes no sense if you divide the mileage by the time spent behind the wheel, but Illych added to driving time the weeks spent earning money to pay for the cost of running the car. In this light, car ownership seemed crazy – and something like that insight lies behind the car-sharing model, as one of Zipcar's founders, Robin Chase, explains.

When you join Zipcar, you pay for the car only when you need it. "All the hours a car sits idle, I'm not paying for it," says Chase. "Heaven forbid that I would ever maintain or deal with the repairs."

Chase co-founded Zipcar in Boston in 2000, buying a fleet of cars and convincing local authorities to dedicate precious parking spaces to them, so that members would have easy access to cars as and when they needed them. Subsequently the company spread to many other cities, in the US and worldwide.

CHANGING BEHAVIOUR

When London started charging motorists to drive throught the centre of the city in 2003, overnight there was a 25% decrease in congestion. Short-term rental has been shown to have some of the same beneficial effects, which may eventually lead to significant changes in transport infrastructure.

According to independent research firm Frost and Sullivan, a car-sharing programme like Zipcar's can save up to 70% of the total transit costs for its members, as they pay only for the hours they use the vehicle, with no responsibility for fuel, insurance, maintenance, parking or lease payments. But what will interest city planners is the effect car-such programmes have on the way people travel.

Zipcar opened for business in Baltimore a year ago and has since gathered data from its members there to assess what happens once car-sharing is introduced in a city. It found that only 12% had taken more than five trips by car in the previous month, down from 38% before joining Zipcar. Not because they were staying at home but because they were walking more (up 21%), biking more (up 14%), and using public transit more (up 11%). Nearly a fifth had actually sold their vehicles since joining.

So as far as town planners are concerned, car-sharing means less traffic, easier parking and a generally more pleasant living experience for everybody.

Robert Henrich, CEO of Car2Go

In 2007, Zipcar merged with a large US-based rival, Flexcar. It floated in April last year, and also bought out the larger UK rival, Streetcar. (Owing to the scale of the combined business, the merger needed approval from Britain's Competition Commission, which eventually came in December.)

Meanwhile, Zipcar's rental model has been copied around the world by a variety of organisations – including, surprisingly, car manufacturers.

Daimler offers low-emission Smart cars to members of its Car2Go scheme in the German cities of Ulm and Hamburg, and in Vancouver and San Diego. BMW on Demand provides drivers in some European cities with a 1 Series for around €16 per hour, or a roomier 5 Series for €23 an hour, including servicing and cleaning; and Volkswagen has launched a scheme in Hanover. As with Zipcar, access to cars, and payment systems, is easy.

Rental company Avis tried something similar for a few years, unsuccessfully, but recently launched Hertz On Demand in London, Paris, Berlin, Madrid and New York, providing cars for much shorter periods than usual, for as little as $5 an hour. These include luxury cars such as the Cadillac Escalade Hybrid, and electric vehicles like the Chevy Volt and Nissan Leaf.

In each case, the business model is expensive, as Illich could have predicted: Zipcar, car-makers and the big rental firms have invested in fleets that need to rented out frequently if they are not to drain money away. ◘

A Car2Go Smart car in Austin, Texas

Visitors to Noble's site complained that their insurers wouldn't let them rent out their cars

bad record, and allows owners to put restrictions on their cars. He got the policy he needed – exclusively. "If someone else wants to do this they'll have to find an underwriter, and that's not easy."

These days, Noble regards peer-to-peer as only one part of a sound business. "People say that if Zipcar had been peer-to-peer, they'd have been profitable years ago. I don't think so. It's a useful supply-chain tool, but if I based my business on car-sharing alone, I'd have gone bust. Car-sharing is just one slice of the pie. Leasing and rental are much bigger markets."

Noble doesn't source vehicles from private individuals only, but also from fleet companies and corporates looking to offload cars. "Drivers don't care where their car comes from. Fleet companies might have a thousand cars, which can take a long time to resell. I told them I would take their cars for AU$17 a day. At first, they said, 'Forget it!' But when I explained how much money they could make from cars that were otherwise costing them, they changed their minds."

By widening his market, Noble has taken market share from leasing companies. ("If you are a real-estate agent, and you have had a bad quarter, so you can't afford a particularly great car, we'll find the car that suits you. And if you want a different car later, we can help you.") He's also cornered a large amount of business in accident-replacement vehicles. "I can get a car for AU$40 (€31) and charge insurers AU$150 for it, and we're still lower than the market rate. Avis would supply a car of the same make for AU$200. And with demand for accident replacement going up, we are using more private cars at the moment."

Noble expects to be profitable in the next couple of months, he says breezily. And he's staying in a fancy hotel because he's come to the UK to talk to investors who want him to start up here and in the US.

"We are by far the biggest operator, globally," he says. "There's not another company out there that has several thousand dollar revenues per month. Most of them are start-ups, and they're *burning* that kind of money each month." ◘