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Mobility Car-Sharing (C)

Growing out of its roots?

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Draft version

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Growing Out of Its Roots?

This case was written by Kai Hockerts, Adjunct Professor and Research Programme Manager of the Centre for the Management of Environmental and Social Responsibility (CMER), INSEAD, as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. The case has received the 2003 oikos Best Case Award www.insead.edu/CMER/publications/OikosAward.htm.

The Web of Partnership

After the formation of Mobility CarSharing (the result of a merger between ATG and ShareCom) in 1988, the main challenge of the new co-operative was to replicate the ZüriMobil model in other regions (Vonarburg, 2000, interview). Given the extraordinary success among the clients of VBZ (the local provider of public transport in Zurich), many other communities decided to offer similar partnerships between their ***local public transport providers*** and Mobility. By 2001, Mobility had eleven such co-operations in place. For a young and small organization these partnerships were priceless for two reasons. Firstly, given his virtually non-existing advertising budget Christian Vonarburg, Mobility's marketing director, wouldn't have been able to advertise on his own. More importantly, by reaching out to the clients of public transport providers Mobility was able to target a segment of the Swiss population that was particularly likely to be interested in Mobility.

But Vonarburg's most important coup was to persuade the Schweizerische Bundesbahnen ***SBB, the Swiss railway***, to join in a marketing co-operation. Both ATG and ShareCom had been in close co-operation with the SBB's department for real estate as a supplier for parking space near the railway stations. However, they had never worked with SBB's marketing department (Lütolf, 2000, interview). By drawing on research funded by Energie2000, Mobility was able to demonstrate that the SBB had much to gain from an increased car-sharing penetration (Muheim, 1998): Clients who switched from owning a car to car-sharing usually increased the amount they spent on public transport (PT). Stressing this indirect "PT rent" Mobility succeeded in persuading the SBB to advertise car-sharing among its clients. By offering the possibility to link the annual and monthly renewal of its subscription with a Mobility membership, the SBB particularly allowed Mobility to target the SBB core clients who were most likely to join a car-sharing scheme.

Another opportunity for co-operation materialised when Armin Eberle (2002, interview) became head of environmental management at ***Migros***, Switzerland's largest retailer in early 1999. During his studies in the early 90s, Eberle had been a member of ShareCom's board. Thus he was delighted to find that Migros was already an occasional client of Mobility at its headquarters. By extending these first contacts, Eberle turned Migros into Mobility's first show-case client for ***business car-sharing***. As part of this offer Mobility allowed business clients to book cars for their staff through the Mobility system. Traditionally firms maintained their own fleets of cars for business trips of their employees. Apart from reducing the need for such a fleet, the new Mobility product helped firms to reduce administrative cost and hassle of fleet management. Mobility's advanced booking and billing system finally allowed them to track every single business trip and to book the full cost effortlessly to the correct budget (Langendorf, 2002, interview). From Mobility's point of view business car-sharing was an excellent extension of its product range. Most private clients needed a car in the evening or over the weekend, while businesses usually needed cars during office hours only. Thus business and private car-sharing supplemented each other, helping Mobility to further increase the efficiency of its fleet.

Other examples of the ***Migros/Mobility co-operation*** included five Mobility transporters that were block-booked by Migros during the day to allow clients to transport bulky goods home (Eberle, 2002, interview). The co-operation went further after Volkswagen had launched the Lupo, a new car specifically designed to consume less than 3 litres per 100 km (about 78 miles per gallons). Although the Lupo consumed less fuel its higher sales price made it financially unattractive. Migros, therefore, decided to help Mobility by sponsoring the cost

differential between the Lupo and the traditional vehicles used by Mobility. As a consequence 75 Lupos were made available at 75 Migros sites across Switzerland. The most recent co-operation launched in the summer of 2002 opened Migros' discount system for Mobility clients, who could now receive 'Cumulus' discount points for every Mobility mile traveled.

Apart from striking new co-operations, Mobility also continued to leverage its relationship with ***Energie2000*** (which in 2001 was renamed SwissEnergy). Although the program's financial contributions were never very high in absolute terms, they nonetheless had important consequences by enabling Mobility to make investments outside its day-to-day business. Support from Energie2000 took four forms (Scherrer, 2002, interview): public awareness and credibility building, support of selected events, research and development grants for technological innovations, and pilot demonstration grants to prove the economic viability.

Projects included research into how car-sharing usage could be further simplified (instant access, open-end usage), an improved coverage of residential areas, an integration of third-party fleets, and the further development of business car-sharing. However, the key project sponsored by Energie2000 was the development of an ***on-board computer*** system (Cunz, 2002, interview). This ambitious R&D project had grown out of ShareCom and was managed by Lorenzo Martinoni, Mobility's head of IT and administration. In the early days, Mobility clients had gotten access to the key of a car by opening a safe deposit box, which was installed close to the parking lot. At the end of a trip they noted the distance traveled in the car's board book. Once per month Mobility employees collected the board books and communicated the details to the billing department in Lucerne. The system was inefficient and accident-prone: bills took two months to be delivered; clients tended to take the wrong car or made mistakes in the board book; and finally Mobility had no way to control abuse of the system. This last point became more of a problem as cars were increasingly stolen and shipped out of the country.

The new on-board computers solved these problems Mobility because they linked cars to Mobility's headquarters via the mobile telephone network using a short messaging system (SMS). Every client could now access cars through a smart card that identified him to the board computer. Car doors opened automatically only if a valid reservation has been made via telephone or internet. At the end of a trip the computer automatically transmitted all relevant data to the Mobility headquarters. Furthermore, Mobility could localize the position of every car via a global positioning system (GPS) thus making theft and abuse more difficult. The on-board computer was supplemented by Mobility's award-winning ***call centre*** (Mobility Journal, 2001/1). This key element of Mobility's operations handled 1250 calls every day (Mobility Journal, 2000/4) for Mobility. Peter Muheim (2002, interview) stressed that without excellent systems and processes a density of a hundred calls per hour at peak times (equalling one call every 36 seconds) would not be manageable.

Another important partner of Mobility was actually a would-be competitor – the ***car-rental firm Hertz***. The European headquarters in the UK had asked Hertz Switzerland to explore the possibilities of car-sharing (Langendorf, 2002, interview). As early as 1995, an ATG user group in Lenzburg had struck a deal with Hertz, allowing its members cheaper access to Hertz cars. After initial doubts about the motives of Hertz in this unusual co-operation, Vonarburg negotiated an extension of the program giving all Mobility members a 30% reduction on the standard rates of Hertz, and allowing Mobility clients to book Hertz cars via the Mobility call centre. This unlikely co-operation was useful for both sides. Mobility's own business model was geared primarily towards short-term and short-distance usage. By offering the link with Hertz Mobility clients had an economically attractive alternative if they needed a car for several days in a row or if they wanted to drive more than 200 kilometers. Hertz in turn was

able to increase the efficiency of its fleet, which was mainly used by business clients during office hours (Florin, 2002, interview). Mobility clients on the other hand needed cars usually over the weekend or in the evening. The success of the programme was demonstrated by the fact that over time Mobility became the largest client of Hertz Switzerland**,** with a turnover of CHF 2 million in 2001 (Langendorf, 2002, interview).

An End to the Co-operative Structure?

Mobility's strong growth in the post-merger phase (see Exhibit C2) was seen as a ***vindication of ATG's strategy of professionalisation***. Although the merger was publicized as a union of equals, it was in reality a take-over of ShareCom. ATG management was clearly in the driver’s seat: The joint headquarters were located in Lucerne; the prevailing management philosophy was one of commercialization; and when two years after the merger Martinoni decided to quit, he left the effective management of Mobility fully in the hands of the ATG "dream team" Langendorf/Vonarburg. The two brought in a group of young engineers from Switzerland's top university ETH Zurich, to help them run the organization more and more like a for-profit business.

An important ambition of Langendorf and Vonarburg was the ***growth of Mobility abroad,*** leading to several joint ventures in Germany and Italy. When the oldest car-sharing organization in Germany, StattAuto Berlin, experienced serious financial problems in 2000, Mobility offered to take over StattAuto (Vonarburg, 2000, interview). Although nothing came of this proposal (the ailing StattAuto decided to look for a German solution to its problems) the discussions had whetted Mobility’s appetite for international growth.

The organization's enduring growth (30-40% p.a.) strengthened Langendorf and Vonarburg. Under their leadership ***Mobility had moved further away from its self-help roots*** than ever before. As Mobility started to communicate more on price and quality, the ecological motivation of car-sharing became much less dominant (Belz, 2001). While Vonarburg agreed that grass-roots activists had been crucial in the early years, he did not expect them to play a role in the future:

> *"Today we are a service organisation with clients who expect good quality. This does not fit with a voluntary self-help system." Commenting on the role of the co-operative system he added: "We have neutralised the co-operative system to a maximum. Today the management team can run Mobility as it sees fit. The annual delegate assembly has been marginalized as far as legally possible."*
>
> (Vonarburg, 2000, interview)

As Mobility thrived frustration and disaffection among the traditional grass-roots activists grew. Although professional Mobility employees serviced a considerable part of the fleet, volunteers were still looking after cars in many rural settings (where a commercial solution was not financially viable). These activists were also still represented at the co-operative’s annual assembly where they challenged the expansion plans of Langendorf and Vonarburg concerned that Mobility was becoming just another rental company.

Christian Vonarburg began to suspect that the activist model might have run its course and that the co-operative structure was no longer an asset (Vonarburg, 2000, interview). He

wanted to run Mobility as a pure for-profit business and to dissociate it from the fundamental past. Rather than being helped by its activists, he believed that disappointed pioneers and cumbersome proposals at the annual assembly held the organization back.

Caught in the Web? A Partner Turning Unfriendly

Entrepreneurs like to fret that nobody takes due notice of their achievements – until the day someone does. On the 22 March 2000, a very concerned Hans-Ruedi Galliker called the other members of Mobility's board of directors (Muheim, 2002, interview). Earlier that day Galliker as president of the board had met with Paul Blumenthal, head of passenger transportation of the Swiss railways SBB. Blumenthal had been plain (Belz, 2002): He was delighted by the successful co-operation between Mobility and the SBB. In fact he was so delighted that he wanted to transform the SBB into an integrated mobility supplier including an SBB car-sharing product. He shared the optimism of the Energie2000 study (Muheim, 1998) as to the market potential for car-sharing as well as the secondary benefits for public transport. However, he felt that Mobility was not growing as fast as it might. By integrating car-sharing as a new business unit into the overall structure of the SBB, Blumenthal expected to realize this untapped potential faster as well as achieving overall efficiency gains.

He, therefore, offered to ***take over Mobility***. If this was not possible then the Swiss railway would have to build up its own car-sharing offer, while at the same time canceling all existing contracts with Mobility, including the marketing partnership and the access to SBB parking lots (Belz, 2002). Although Mobility had expected threats from potential competitors some day, nobody had foreseen such an early challenge with so much at stake. The SBB had both the marketing and financial muscle to build up a viable network of car-sharing locations across Switzerland. Furthermore, Mobility would face problems in quickly replacing the roughly 20% of its parking lots currently rented from the SBB.

Preparing for Action

As he prepared for an urgent board meeting that March 2000 Peter Muheim considered the challenges the board members faced:

- Should Mobility change its organizational form from a co-operative into a public company quoted on the stock market? What other options existed?
- What should the board think about Langendorf's and Vonarburg's international ambition?
- Most urgently the board had to come up with a reply to the SBB take-over offer. In this it had to consider the interests of co-operative members, the preservation of the by now over 140 jobs in Lucerne, and the consequences a takeover would have for the long-term success of the car-sharing idea.

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Exhibit C1:
Time Line of Car-Sharing in Switzerland (1987-2000)

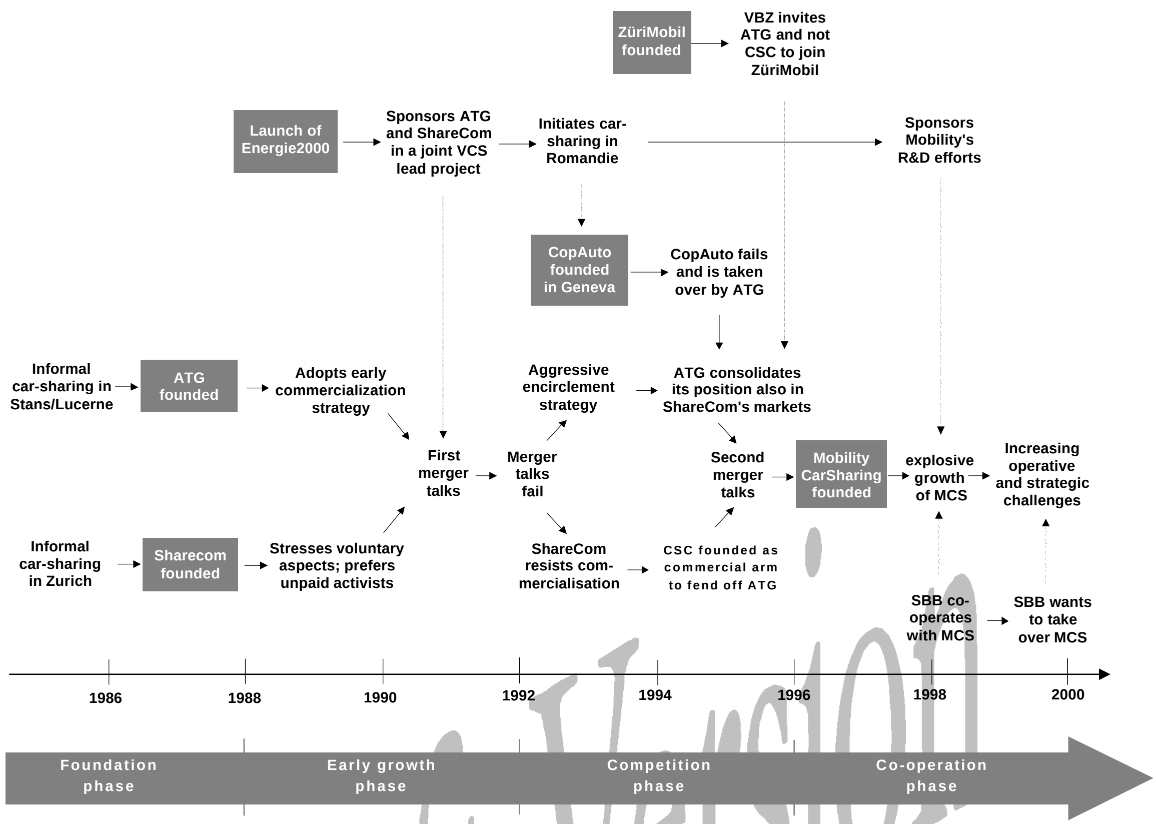
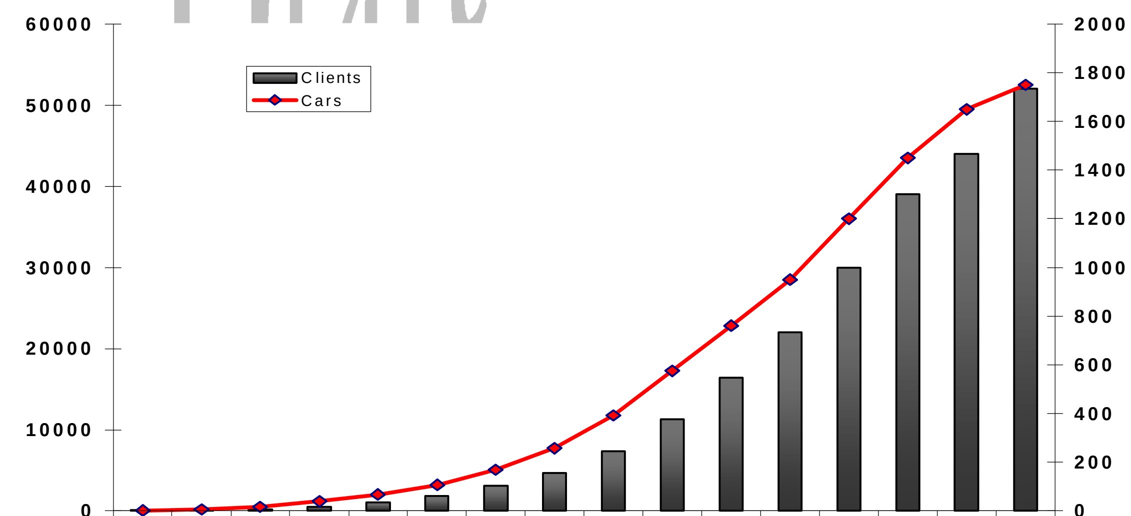


Exhibit C2:
Growth of customer base and cars at Mobility CarSharing



	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Clients	28	58	174	530	1069	1849	3143	4662	7332	11308	16435	22000	30000	39000	44000	52000
Cars	2	6	17	39	67	107	169	258	393	576	761	950	1200	1450	1650	1750

Source: Mobility CarSharing Switzerland (Heusi, 2002, interview)