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1st. Prize

Mobility Car-Sharing (D)

Show-down in Lucerne

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Draft version

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Mobility Car-Sharing (D)

Show-down in Lucerne

Case N

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 Fontana Effect

In the Spring of 2000, the board of Mobility CarSharing was at its wits ends. Galliker and the other board members (including the ATG entrepreneur Peter Muheim and the former VCS lobbyist Monika Tschannen) were car-sharing pioneers. None had experience in how to lead negotiations over a hostile take-over bid. Anticipating a tough confrontation, they started looking for someone who could help develop the board's strategy in difficult times. Mobility approached ***Giatgen-Peder Fontana***, a former CEO of Rivella (a Swiss soft drink company) and an experienced manager who was a board member of several SMEs in Switzerland.

Soon after Fontana started working with Mobility, the board realized that its challenges were much broader. The directors accordingly invited Fontana to join the board and become its president for the time it would take him to sort out the problems (Mobility Journal, 2001/2). Mobility had reported a modest operating profit since 1998. However, in 2000, the organization was heading for ***operating losses*** of CHF 1.2 million (Mobility Annual Report, 2000). Although it had increased its revenues from CHF 21.4 million to CHF 27 million, the organization had let its costs spiral out of control even faster: In just 12 months the personnel cost had grown by CHF 2.5 million, necessitating the hiring of new offices to house the call center; the marketing budget had tripled to CHF 1.2 million; and what depressed Mobility's cash flow particularly was an extraordinary investment which came from Mobility's decision to equip its 1500-strong fleet with on-board computers (not negligible at CHF 1,500 a piece).

As the board started to reassert itself, an ***increasing rift*** became apparent between directors and management. Having been used to running the organization quite independently, the management team thought that the board was far removed from the day-to-day business. The board on the other hand felt that it was not properly informed and even suspected having been sidelined on purpose on some strategic decisions (Tschannen-Süess, 2002, interview). The resulting struggle between board and management was finally resolved when the board decided to look for a new CEO. As a result Vonarburg quit Mobility, while Langendorf became head of the newly formed Mobility Support AG (Mobility Annual Report, 2000), now responsible for developing Mobility's services abroad. To tackle the immediate problems Fontana was appointed ***interim CEO*** during 10 months.

Mobility CarSharing's organizational growing pains were also impacting its ***organizational culture***. Traditionally, the management team had encouraged open debate. "Shortly after the merger we had management team meetings with as many as 30 participants," recalled Thomas Lütolf (Lütolf, 2002, interview), who joined Mobility in 1998 to head its network marketing. Such a consensus-based approach took a lot of time. On the other hand, the quick pace of development required the duo Langendorf / Vonarburg to take decisions informally on the spot. The resulting organizational uncertainty had worked fine for a tightly-knit team of 30 employees. However, as Mobility approached a staff of 140 the old processes proved to be incompatible. "The new mass business requires more traditional (one might even say boring) management skills less the old visionary leadership," concluded Lütolf (2002, interview).

During his short stint at the helm of Mobility Fontana steered an austerity course, including a hiring freeze and a 50% cut in the marketing budget. As a result Mobility was once again able to report an operating profit for 2001 of CHF 327,606. Other measures included the development of a management information system, and a formalization of the formerly fluid and non-transparent decision processes.

"As is often the case in young organisations, the willingness to change at Mobility was very high even among the more fundamentally oriented members. It is much more difficult to initiate these kinds of changes at a traditional organisation where people are deeply opposed to change. Change in a young organisation is easier because that is a normal part of its activities."

(Fontana, 2002, interview)

Most members of the Mobility family agreed that the radical changes that happened in 2001 were necessary and positive. However, a certain nostalgia for the early days remained in some cases:

"The contact between Lucerne and the activists was closer in the beginning. After the merger this relationship became more anonymous as the on-board computer reduced the need for interaction with Lucerne or among the users here in St.Gallen. The first new cars for St.Gallen were still driven here by Reiner Langendorf personally. Today we have a different management generation in Lucerne."

(Schwager, 2002, interview)

Rail Link – Extending the Mobility Model

While the leadership struggle unfolded at Mobility, the board was also engaged in its discussions with the SBB. In these tough negotiations the on-board computer and software systems of Mobility proved decisive. For the SBB to develop its own system would have taken up to two years, and without the on-board computer the SBB would not have been competitive against Mobility (Cunz, 2002, interview). Realizing that a confrontational course would be detrimental for both sides, the two organizations finally agreed to form a new company, ***RailLink***, which was owned jointly by SBB (55%), Mobility (25%), and DaimlerChrysler (20%). Under the RailLink agreement SBB placed 75 additional Smarts at SBB train stations (Mobility Journal, 2001/3). Mobility provided the on-board computer system and the RailLink call centre service.

The idea was that RailLink and Mobility would serve two different markets. Exhibit D1 illustrates the key difference between RailLink and Mobility. Mobility clients usually do not own a car and use car-sharing as an independent element of their mobility needs. "However, this is not an option for all citizens," explains Stephan Schneider (2002, interview), head of marketing for RailLink.

"For example, I could not imagine giving up my own car and sharing one with several others. Nonetheless, when taking the train I still face the challenge to get to my final destination from the train station. RailLink has been particularly designed to cover this 'last mile' for SBB clients."

(Schneider, 2002, interview)

Thus while 93% of all Mobility trips started from the location nearest to the place of residence (Tschannen-Süess, 2002, interview), RailLink planned to serve those clients who had a

transportation need at the end of a train trip. It remained to be seen just how such a segmentation of clients would actually work out, or whether both offers would not in the end vie for the same clients.

In any case, RailLink constituted an important step for Mobility. It was the first time the organisation has been able to sell its technology and support to another car-sharing supplier. Reiner Langendorf (Langendorf, 2002, interview) hoped that this kind of service would become a profitable option for the Mobility Support AG to expand across Europe without actually having to take over fleet management and local marketing. Whether RailLink would actually realize the ambitious growth targets set by Blumenthal (i.e. 10,000 new clients per year) remained to be seen. In June 2002, nine months after its introduction, RailLink was still struggling to build a subscriber base.

The RailLink experience could be interpreted as a sign that Mobility had saturated the market niche for car-sharing. This conclusion was also supported by the declining growth in Mobility users. While Mobility had grown more than 30% in the late 1990s, this rate dropped to a mere 16% in 2001. However, the Mobility management remained optimistic that it could continue to grow substantially (Lütolf, 2002, interview). Peter Muheim pointed out that Mobility had so far tapped into only 8% of the potential 600,000 Swiss citizens that could be interested in car-sharing (Muheim, 1998). Furthermore, Mobility had only just begun to explore the lucrative market for business car-sharing and fleet management.

To reach its full potential Mobility was also reviving old partnerships. In June 2002, Mobility re-launched its partnership with the VBZ, extending the offer of joint Mobility membership and public transport subscription to the ***Zürcher Verkehrsverbund (ZVV)*** and thus the public transport in the whole of Kanton Zurich and not just the city centre as had earlier been the case with the VBZ (Baumann, 2002, interview). By marketing this offer with its roughly 200,000 annual and monthly subscribers, the ZVV provided Mobility with a direct link to this attractive market segment. Within the first month this re-launch of an old partnership alone attracted 380 new clients (Lütolf, 2002, interview).

The Role of Grassroots Activists

As Mobility grew in size, it evolved to a point where the old management team had seen no more value in maintaining its ***entrepreneurial activist structure***. This position was vehemently rejected by Monika Tschannen (Tschannen-Süess, 2002, interview), member of the Mobility board and former VCS lobbyist. She saw in this stance a proof of Mobility's growing arrogance, feeling that the co-operative was about to squander its most valuable resources. Following the leadership struggle the new management team adopted a more differentiated approach towards its activists (Fischer, 2002, interview). Professionalisation remained the ultimate goal (and if anything it has even increased under Fontana). However, the Mobility management once again stressed the "high importance" (Fischer, 2002, interview) of its activists.

> *"The contribution of our over 850 activists and 350 sections is crucial for the functioning of the co-operative Mobility. […] In rural regions the maintenance could never be guaranteed centrally from Lucerne. Furthermore, the attraction of new members has to be supported by activists on the ground. [Their work was]*

essential for the positive development of sections, [with 31 new sections founded in 2001]. Furthermore, the co-operative benefits from interested activists, who are willing to participate as delegates and to give important impulses for the development of the organisation."

(Mobility Annual Report, 2001: 7)

The consequence was a ***dual strategy*** that aimed at operating as a service-oriented for-profit business, while at the same time maintaining the high identification and feeling of ownership among its members. Although the core was run like a business, Mobility wanted to sustain its large number of motivated and voluntary activists.

"The strategy must be developed here [in Lucerne]. It is wrong to say that the co-operative members make strategy. That was never the idea. However, we take [the activists] very seriously. In the delegate assembly we received a number of very good proposals as well as some cumbersome ones. However, we owe the [members] accountability. Considering the hours we have taken to respond to these proposals, I can say that we do take them very seriously."

(Heusi, 2002, interview)

A dedicated customer base was also permanently spreading news about Mobility by word-of-mouth. Even in times when Mobility was not running active marketing campaigns or advertisements (such as in 2001), these members allowed Mobility to continue its growth (Muheim, 2002, interview).

"What every book-club dreams of – current clients attract new clients by word-of-mouth – that is built into the Mobility system. […] This is very important – economically and emotionally. […] Accordingly the system has a very high self-sustaining dynamic. I have a high regard for this."

(Fontana, 2002, interview)

The annual delegate assemblies and user feed-back during the year provided a regular feed-back mechanism, allowing Mobility to stay in touch with customer needs as well as to identify options for further innovation, thus effectively saving immense cost for market research.

"The members […] force us to take up difficult topics. Many constructive proposals are submitted via the internet. It is fantastic that the users tell us, for example, how we have to design our webpage so that it is easier for them to work with."

(Heusi, 2002, interview)

The fact that the 2002, delegate assembly had more participants than ever and yielded a large number of proposals ranging from fleet management, through price structure, to general business strategy was seen by Mobility management as prove for the vitality of the grass-roots system (Lütolf, 2002, interview).

Financing Growth - The Choice of Organisational Form

Mobility's new management also backpedaled on the question of its co-operative form. Karl Heusi, who took over the position of CEO in 2002 stressed that the co-operative structure turned out to be an important cornerstone for its financial success.

> *"The self-help groups did something very clever. They founded co-operatives in which every user had to buy a share of CHF 1,000. This has financed the whole growth until today. 'Financing for growth' has never even been a topic. Even today 50% of our customers are members of the co-operative. In traditional enterprises more clients mean more investments and more working capital needs, leading eventually to a liquidity problem. We have never had such a problem; our financing has always been ingeniously solved."*
>
> (Heusi, 2002, interview)

This puts the Mobility CFO in the comfortable position of having an equity rate of 40% (Mobility Annual Report, 2000). The co-operative form has also turned out to be a useful tool for reconciling the profit motivation and non-profit goals.

Apart from the requirement to maintain the co-operative's capital and to pay dividends (in the form of lower prices), its statutes also required Mobility to support ecological goals and the general development of car-sharing in particular (Fontana, 2002, interview). With half of its users being co-owners, it was easier to maintain the dual strategy of professionalisation and an activist network. Co-operative members, for example, helped to identify and obtain new vehicle locations at reasonable prices. And because they were also co-owners they even made proposals that in some cases lead to *increased* rates. It is for example due to the insistence of the delegate assembly that Mobility introduced a cancellation fee or the night tariff. (Muheim, 2002, interview)

> *"Up until now the co-operative has been godsend. I have never seen anything like this – that owners of an enterprise are also intensive users. That is sensational! I will probably never encounter a similar situation, in which people feel so implicated in a company. Mobility is not simply a supplier for its customers – the customers are a part of Mobility. […] Many a company wants to better understand its customers. […] Everybody talks about customer focus, often without ever having met a customer face to face. With us this is different. At the section and delegate assemblies we are confronted with the customers. And [between assemblies] many write and give active feed-back. "*
>
> (Heusi, 2002, interview)

The Road Ahead

In the process of developing RailLink Mobility had actually discovered a new activity field. By selling its services it could make revenues without having to take on local fleet management or client acquisition. Rather than setting up car-sharing services abroad Mobility decided that it would offer its core capabilities to interested parties, while leaving the on-the-

ground responsibility to its partners. In 2002, Hertz Germany, for example, began offering business car-sharing with the help of the newly founded Mobility Support AG. In this pilot venture Hertz took care of fleet management and client management, while Mobility provided its technology and call centre support for day-to-day operations (Langendorf, 2002, interview). This solution had also the added bonus that Mobility could expand without having to abondon its co-operative form which it cherished more than ever.

How would Mobility develop over ***the coming years***? Looking into the future Giatgen Fontana saw Mobility's potential particularly in the linking of different car fleets rather than the single-minded growth of the Mobility fleet, and at the same time underlined the ideological shift that Mobility had undergone over the past decade:

> *"Mobility has the goal to operate (either by itself or through partners) different car fleets in a similar way through the 'Mobility model', while allowing migration between the fleets. We don't think that all cars on the road should be red [the standard colour of all Mobility cars], but that cars should be used rather than taking up parking space. Private users should be able to use cars from a business fleet [during the weekend], while businesses should be able to use the Mobility fleet [when their mobility needs peak]. Mobility's mission is not to fight private car ownership. [The decision to own a car or use car-sharing] is a question of efficiency depending on the specific mobility needs of each person. [Car-sharing] is one element of many mobility options."*
>
> (Fontana, 2002, interview)

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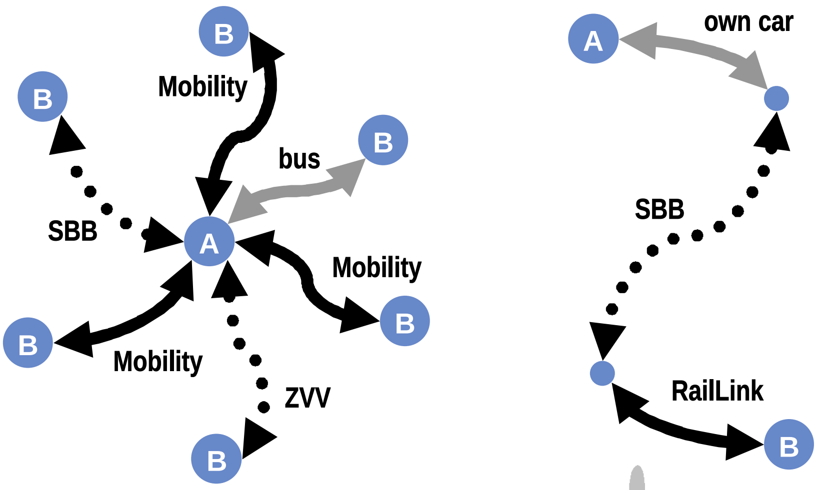
Exhibit D1:
Differences Between the Mobility and RailLink Model



Source: Adaptation from ZVV presentation (ZVV, 2002)