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1st. Prize

Mobility Car-Sharing (B)

The Moment of Confrontation

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Draft version

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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.

Confrontation: ATG's Encirclement of ShareCom

In the summer of 1994, Peter Muheim was feeling restless. Over the past twelve months ATG and ShareCom, Switzerland's two car-sharing co-operatives, had actively explored possibilities for combining their two organizations. A merger it was hoped would build Europe's first car-sharing champion and pave the ground for further professionalization and growth of decentralized short-term rental.

After heated discussions the merger talks finally broke down in 1994. The philosophical and personal differences turned out to be too much. The ATG management team of Conrad Wagner, Ralf Fischer, and Peter Muheim was deeply disappointed. Without a merger they felt car-sharing would remain a regional product for a small group of committed self-help activists. Exasperated Wagner left ATG and moved to the U.S. where he launched one of America's first car-sharing companies, CarLink in Portland. Fischer also decided that it was time to quit. He started his own company offering accounting and auditing services. However, ATG being one of his clients, he remained somewhat close to the organization.

Meanwhile, Peter Muheim and ATG's new CEO, Reiner Langendorf decided to adopt a more aggressive strategy towards ShareCom. "At the outset of this confrontation we were in a disadvantaged position," recalled Muheim (2002, interview). "ShareCom was well established in the Kanton Zurich and thus controlled one of the largest and most profitable market segments in Switzerland." Muheim, an enthusiastic player of the strategy board game "Go", described the situation as a constant up-hill game. "Luckily for us ShareCom did not realize that they were playing a game until it was too late for them" (Muheim, 2002, interview). He engaged ATG in the planned ***"encirclement" of ShareCom*** in Zurich, so as to cut off ShareCom from its hinterland and hamper its growth outside Zurich.

An analysis of the growth patterns (Harms and Truffer, 1998: 19-20) of both organizations illustrates ATG's strategy (see **Exhibit B1**). In 1991 both had roughly the same number of clients (about 500) and cars (about 30) and were present in the same number of communities (about 20). Over the next five years both grew at the same rate (50-70% annually) in terms of members and cars. However, while ShareCom was present in only 70 communities by 1995, ATG had cars in twice as many locations.

Two elements explain the ***difference in network size***. Firstly, ATG began to actively use marketing to grow its network, while ShareCom was relying on bottom-up growth through its grass-roots system (Harms and Truffer, 1998). More importantly, ATG consciously adopted an expansion strategy to quickly cover all communities around Zurich. However, ATG's encirclement strategy came at a price. By expanding its network faster, ATG had a lower density in the communities it served. This was a risky approach for a business in which higher density means more variety and choice for clients as well as increased operating efficiency. Furthermore, ATG's insistence on trumping ShareCom, sometimes led to the opening of a new location that turned out to be unprofitable (Schwager, 2002, interview).

In 1995, ATG's assault finally yielded a response. The management team of ShareCom decided to found a commercial subsidiary, the ***CarSharingCompany (CSC)***. The idea behind CSC was to keep up the voluntary system of ShareCom, but still to offer a commercial alter-

native to those clients who were not interested in a self-help system. However, CSC turned out to be too little, too late. While the two incumbents continued to grow at staggering rates, the newcomer CSC could report only 100 members by the end of 1996.

What held CSC back was the unwillingness of ShareCom to allow CSC access to its own fleet. ShareCom was afraid that the ‘commercial’ CSC clients would unduly benefit from the voluntary work of its members, thus eroding the basis for the self-help system. After all, it was this voluntary contribution which had allowed ShareCom to maintain prices of 10-30% below ATG’s (Nufer, 2002, interview). Only after tedious negotiations between CSC and ShareCom did the two sister organisations decide to pool their fleets. However, now pioneer members of ShareCom were complaining that CSC users were free-riding on their voluntary contribution. If it wanted to save the self-help character of the co-operative, ShareCom had to maintain the high degree of social control in the user groups. This meant keeping the number of users in check who were using cars outside their own user groups, so as not to frustrate the members who were eventually responsible for cleaning and maintenance. Critics at ATG quickly rephrased ShareCom's slogan from "Use it – but don't own it!" (Nutzen statt besitzen) to "Clean it – but don't use it!" (Putzen statt nutzen) (Muheim, 2002, interview).

Ultimately two developments consolidated ATG's position and sealed ShareCom's fate: the failure of CopAuto and the decision of ZüriMobil to choose the outsider ATG as its partner rather than ShareCom. ***CopAuto*** had been founded in 1993, in Geneva, as the first car-sharing organization in the Romandie, the french-speaking part of Switzerland. The managers of CopAuto decided that a voluntary self-help system would not hold in the Romandie and thus chose a more commercial service approach. An important element of this strategy was CopAuto's intention to develop its own on-board computer system to increase the ease of usage and also reduce abuse. However, CopAuto failed after just two years in operation. Its heavy investments in the development of an on-board computer had overstretched its financial abilities, while clients had been attracted much slower than hoped for initially. After some soul-searching ATG decided to take over CopAuto's clients, who, however, lost their deposits in the process. Suddenly ATG had graduated from regional patchwork provider to national champion.

An even more important development came in 1996. A year earlier Zurich's public transport provider, the Verkehrsbetriebe Zürich (VBZ) had launched ***ZüriMobil***, an integrated mobility service, together with Energie2000, several taxi organisations and Europcar, a car-rental firm. However, by 1996, the offer bundling an annual subscription to the public transport with cheaper taxi and car rental access had gained only 300 clients (Baumann, 2002, interview). The VBZ decided to bring in either ShareCom/CSC or ATG to increase the attractiveness of ZüriMobil. Given the fact that ShareCom/CSC had 160 cars in the canton of Zurich as opposed to ATG's 11 cars, the decision seemed a forgone conclusion. However, to the surprise of all concerned, VBZ chose the weak outsider rather than strong local boy apparently preferring ATG’s professional profile. The ZuriMobil partnership brought ATG a mass of free advertising in Zurich. Furthermore, Mobility memberships could now be purchased at each of the VBZ’s points of sale thus increasing Mobility’s “presence” dramatically.

As a result of the CopAuto takeover and the ZüriMobil co-operation, ATG's growth outpaced that of ShareCom for the first time. In the summer of 1995, both groups had had roughly 3000 members (Harms and Truffer, 1998). However, by the end of 1996 ATG reported 6900 clients

as opposed to ShareCom's 5200 members. In 1997, the co-operation between ATG and Zuri-Mobil alone attracted 3000 new clients in just 6 months (ZVV, 2002).

At the same time the gulf between ShareCom's traditionalists (advocating voluntary self-help) and the modernist faction (pushing for more commercialisation) had been growing. Among other things the modernists were once again advocating the idea of a merger with ATG. By autumn 1996 the smouldering conflict resulted in a ***leadership challenge at ShareCom***. In the end the modernist faction ousted the old guard and took control of ShareCom. Nufer (2002) believed that "the self-help system had become a victim of its own success." He concluded that there might be an upper limit of members beyond which a meaningful sharing of goods through a self-help system cannot work. Disappointed with the new, purely commercial course, a group around Charles Nufer left the co-operative and founded a new organisation ProShare, based in Winterthur. Today, ProShare has revived the original spirit of ShareCom albeit with less ambitious growth intentions (Nufer, 2002, interview).

Once the leadership struggle at ShareCom was resolved, it did not take long for ATG and ShareCom to launch a new round of merger talks. Starting in September 1996, the two co-operatives quickly found common ground, leading to a first draft of the merger contract by the end of the year. Members from both co-operatives ratified the merger in spring 1997 at two extraordinary general assemblies with 97% (ATG) and 78% (ShareCom) of the delegates voting in favour (Langendorf, 2002, interview). The result of the merger was launched only a few months later under the name of ***Mobility CarSharing Switzerland (MCS)***. A group of three managing directors jointly ran the new organization under the overall leadership of Reiner Langendorf (ex-ATG), with Christian Vonarburg as head of marketing (ex-ATG) and Lorenzo Martinoni as head of IT and administration (ex-ShareCom). Hans-Rudolf Galliker (ex-ShareCom) became president of the board.

In the wake of the merger Peter Muheim took a seat on the board of the new co-operative. Now outside the day-to-day management he had time to consider what car-sharing had actually achieved in the first decade of its existence. True, recent years had seen the car-sharing business model move from strength to strength. But could they sustain these growth rates? As he was heading for Mobility's head office, Muheim reviewed the key findings of a ***market study*** he had just finished for the Energy2000 project (Muheim, 1998). In this study he analyzed the pre-requisites for participating in a car-sharing scheme.

Potential users had to:

- possess a driver's license for a passenger car
- live in the developed zones of municipalities with more than 2,000 inhabitants
- public transport alternatives to get to work had to be acceptable
  (i.e. it should not increase the daily journey to work by more than 30 minutes).

Muheim found that out of the 7 million Swiss citizens only 25% satisfied these criteria. Car-sharing could thus expect a maximum of 1.7 million potential customers in Switzerland. Based on a representative survey of 3,150 people Muheim had found that a third of these potential users were "fairly" or "very" interested in the idea of car-sharing. This corresponded to about 600,000 people. So far Mobility had just above 20,000 users. Yet to tap into the larger client pool Mobility would have to change its positioning. The key for success Muheim

decided would be in the hands of Christian Vonarburg, who had joined ATG in 1996, after having worked in the marketing of food products for ten years (Vonarburg, 2000, interview). Now as vice-CEO and head of marketing for Mobility Vonarburg's main challenge would be to define a new marketing strategy for Mobility. Given his virtually non-existing marketing budget Vonarburg would have o be creative. Approaching Mobility's head office on the Mühlenplatz (placed right in Lucerne's historic center) Muheim wondered how Vonarburg should approach the issue.

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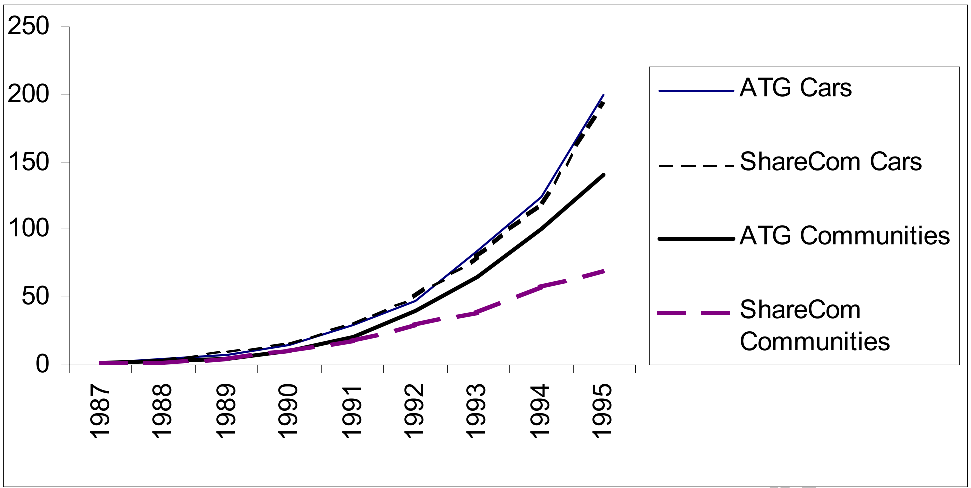
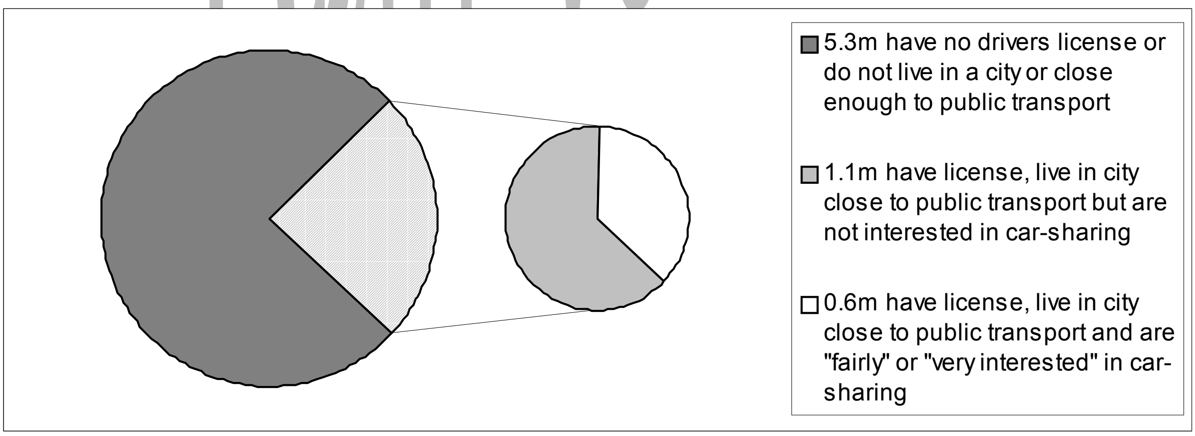
Exhibit B1:
Growth Paterns of ATG and ShareCom (1987-1995)



Source: Harms S, Truffer B. 1998. The Emergence of A Nation-Wide Carsharing Co-operative in Switzerland. EAWAG: Dübendorf.

Exhibit B2:
Estimated Market Potential for CarSharing in Switzerland



Source: Peter Muheim 1998. Car-Sharing: The Key to Combined Mobility, Synthesis Document. Energie Schweiz: Bern.

Exhibit B3:
Time Line of Car-Sharing in Switzerland (1987-1993)