



FRANCES X. FREI

## Zipcar: Influencing Customer Behavior

Anita Karr frantically gathered everything she needed for her road trip: water, her favorite “mix” CD from Javier (the ex-boyfriend), ear plugs. After years as a struggling musician her sister was making her debut as the new drummer for No Bags to Check, a performance art/hard rock band that was gaining momentum on the East Coast college circuit. The venue for this breakthrough in her sister’s career was Lupo’s in Providence, Rhode Island and Karr had to be there.

Living in Cambridge a car hadn’t been necessary; most of the places she needed to visit on a daily basis were within walking distance of Karr’s Valentine Street apartment. To visit her sister across the river, grocery shop, and run errands Karr relied on Zipcar, which she had signed up for a year ago rather than continue to pay for parking, car insurance, and gas. For tonight’s trip she had reserved weeks ago, using Zipcar’s convenient online reservation system, a VW Jetta Jericho. It was 3:30 pm. Karr was scheduled to pick up the Jetta at 4:00 pm, her sister by 4:30 pm, and arrive at Lupo’s by 6:00 pm. Both she and her sister had figured that this was more than enough time to get to Boston from Cambridge, load the drums, and make Providence by the appointed hour. Karr made one final sweep of her belongings—she couldn’t find Javier’s Best of Bob Dylan CD, which she had conveniently forgotten to return—then gathered her bags and headed for the Charles Hotel where she expected the Jetta Jericho to be gassed up and ready to go.

In Brookline Sal Fishman glanced nervously at his Iron Man-branded “expedition” watch as 3:30 pm approached. He was confident that the watch had helped him communicate vitality and focus during his two-hour interview with representatives of the Simon Property Group, owner of the Chestnut Hill Mall. Fishman had been advised that the introductory interview would last no more than an hour. But to his considerable surprise he had been asked to stay beyond the one-hour time frame. The interview was going well and everyone, himself included, seemed to be having a good time. Fishman had hedged his bets when he reserved the Zipcar for this interview. He had picked up the Jetta at 1:00 pm for the 2:00 pm interview and expected to return it by 3:30 pm. But with the interview progressing well beyond the designated time Fishman found himself in a difficult position regarding the car.

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Professor Frances X. Frei and Research Associate Hanna Rodriguez-Farrar prepared this case. This case was developed from published sources and certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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## Zipcar Service

Zipcar was a car-sharing service. Members, who paid annual fees to participate and were assessed usage fees, based on time and mileage, monthly, were provided common use of the service's vehicles independently of one another. Started in Boston in 1999, the company had expanded to 21 cities and owned more than 400 cars. (**Exhibit 1** lists Zipcar locations as of 2004.)

By January 2005 Zipcar had 30,000 registered members, the largest active membership base of any car-sharing service in the United States.<sup>1</sup> On average 1,500 new members joined monthly. Growth in 2004 was fueled by numerous partnerships forged between Zipcar and universities. Tufts, for example, had partnered with Zipcar to provide two fuel-efficient cars to its Medford campus and negotiated a reduced membership fee for students. The administration provided deposits and parking spaces for the cars. The partnership had originated in May 2003, reflecting a pledge by President Bacow that Tufts would strive to achieve environmental goals.<sup>2</sup>

Zipcar had positioned its service as a low-cost alternative to car rental and ownership (see **Exhibit 2**). Recently, it had expanded its vehicle fleet to include luxury cars and SUVs. In Boston a BMW 325i rented for \$12.50 per hour, a Honda Civic for \$8.50 per hour. (**Exhibit 3** lists a selection of vehicles available in Boston's Back Bay with associated rates.)

Tara Diab, a typical Zipcar customer, had sold her truck and motorcycle and had no plans to replace them. Although she drove a van for work, Diab not infrequently took recourse to one of Zipcar's BMW 325is. "It's way cheaper," she explained, adding: "Besides, nobody wants to go on a date in a work van."<sup>3</sup>

Members signed up for the service online. Initial fees included \$25 to cover a driver's license check and a refundable \$100 deposit. Annual membership fees ranged from \$50-\$250 depending on the plan type. (**Exhibit 4** describes the plans available to Boston residents.) Rental periods could be as short as a few hours or as long as a few days. (**Exhibit 5** details daily and hourly usage fees by region.) Every reservation included 125 free miles; beyond that \$0.20 per mile was charged to cover gas. (**Exhibit 6** presents a company explanation of how Zipcar works.)

Members could either call or go online to reserve a car. Reservations could be made as much as a year in advance or minutes before a car was needed. Each car was provided with a permanent parking location and a name that indicated the make and model, for example, Toyota Matrix Myrna, Ford Focus Freddie, VW Jetta Jakarta, and Toyota Prius Pascale. Members were provided with a Zipcard that unlocked their preferred vehicle and provided access to the keys locked inside.<sup>4</sup> A member who made a reservation simply went to the location of the reserved car and swiped the Zipcard over the transponder in the windshield.

Insurance was included in the usage fees for Zipcars and members were responsible for filling the gas tank when the gauge registered a quarter or less using a declining balance card kept with the vehicle. Zipcar provided routine maintenance for the cars and members who washed their cars were reimbursed up to \$15 and given a free hour of use. In the event of a breakdown or accident the member was required to telephone the company as soon as possible. Members paid tolls and parking

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<sup>1</sup> The only major competition in the car-sharing service business was Seattle-based Flexcar. In 2004, the only city in which both Flexcar and Zipcar operated was Washington, D.C.

<sup>2</sup> "Tufts U.: Tufts U. students offered Zipcar discount," *U-Wire*, October 15, 2004.

<sup>3</sup> Marc Daniel, "Car-Sharing Allows Marriage of Utility, Luxury," *Boston Globe*, November 7, 2004, B7.

<sup>4</sup> Theft of Zipcars was prevented by integrating the ignition system with the sensor that unlocked the door.

tickets and were responsible for returning the Zipcar to its designated parking location at the end of the reservation.

### **Should He Stay or Should He Go?**

Karr gasped when she arrived at the Charles Hotel Zipcar parking space and found no car. She anxiously called her sister to let her know that she was on the way, and then called Zipcar hoping to track the car down. She knew she had included some extra time in her planning, but that time was running out. With no backup plan for getting to Providence, Karr listened nervously as the telephone rang at Zipcar headquarters.

Fishman excused himself from his interviewers to call Zipcar from his GPS-enabled 3G cell phone and extend his reservation. The phone was ringing when one of the interviewers stepped out and waved Fishman back to the room. Before Zipcar could pick up the line Fishman hung up. He walked back down the hall, debating whether he should continue the interview or schedule another time so that he could return the car.

Exhibit 1 Zipcar Locations and Numbers of Cars in 2004

State	City/Neighborhood	Number of Cars
<b>Massachusetts</b>	Alston/Brighton	10
	Boston-Back Bay	22
	Boston-Beacon Hill/West End	13
	Boston-Fenway/Longwood	13
	Boston-Financial District/Seaport	13
	Boston-North End	13
	Boston-South End	19
	Brookline	21
	Cambridge-Central	30
	Cambridge-East & Kendall	10
	Cambridge-West & North	12
	Charlestown	1
	Dorchester	1
	Jamaica Plain	11
	Medford	2
	Somerville	15
	South Boston	6
	Wellesley College	2
	<b>New York</b>	Brooklyn-Cobble Hill
Brooklyn-Downtown		1
Brooklyn-Dumbo		1
Brooklyn Heights		2
Brooklyn-Park Slope		6
Brooklyn-Prospect Heights		2
Long Island City		1
Manhattan-Lower		25
Manhattan-Midtown		33
Manhattan-Upper East		14
Manhattan-Upper West	18	
<b>New Jersey</b>	Hoboken	4
	Metro North	3
	Princeton	2
<b>North Carolina</b>	UNC Chapel Hill	4

**Exhibit 1** Zipcar Locations and Numbers of Cars in 2004 (continued)

<b>State</b>	<b>City/Neighborhood</b>	<b>Number of Cars</b>
<b>Washington, DC</b>	Adams Morgan	19
	American University/Tenley	4
	Capitol Hill	10
	Cathedral Heights/Glover Park	4
	Catholic University/Brookland	1
	Cleveland Park	5
	Columbia Heights/Mount Pleasant	12
	Downtown	7
	Dupont Circle	18
	Farragut Square	2
	GWU/Foggy Bottom	8
	Georgetown	4
	Howard University/Shaw	9
	Logan/Thomas Circle	10
	U Street	3
	Van Ness	6
Woodley Park	4	
<b>Maryland</b>	Silver Spring	3
	Takoma Park	3
	Greenbelt	2
<b>Virginia</b>	Alexandria	1
	Arlington North	11
	Arlington South	2

Source: Compiled from company web site.

## Exhibit 2 How Zipcar Compares to Car Rental and Car Ownership

The top screenshot shows the 'Compare to Car Rental' section. It features a table comparing a traditional rental car to Zipcar. The rental car costs \$86.95 per day, while Zipcar costs \$60.00 per day, resulting in a savings of over \$26 per day.

Rental Car	Zipcar
Company: A large rental co. Location: Cambridge Street Car: A Kia Rio. The cheapest car in stock.	Company: Zipcar Location: Central Square Car: A brand spankin' new VW Jetta (Jetta Joslin).
Daily rate (no hourly rate option) \$43.00	Daily rate (or by the hour for \$8.50) \$60.00
Gas charges (estimated) \$10.00	Gas (it's included) \$0
Insurance/damage waiver \$21.95	Insurance (that's included too) \$0
21-25 age surcharge (we didn't include it in the total, but that's a lot to pay just for being under 25!) \$30.00	21-25 age surcharge (we don't think it's fair to charge more) \$0
Parking (assumes you park in a garage for 1 hour during your rental) \$8.00	Parking (use the spot like it's yours) \$0
Additional fees \$4.00	Total \$60.00
<b>Total \$86.95</b>	<b>You save over \$26/day.</b>

The bottom screenshot shows the 'Compare to Car Ownership' section. It features a table comparing the cost of owning a car to Zipcar. Owning a car costs \$843 per month, while Zipcar costs \$153 per month for a fair amount of driving, resulting in a savings of hundreds each month.

Car Ownership	Zipcar
Car: Something similar to a Chevy Cavalier or Ford Taurus.	Car: Whatever your whim - a VW Jetta one day, a BMW the next.
Car payment (including depreciation) \$315	<b>If you drive a lot \$290/mo</b> Several trips each week and a weekend trek out to the country (10 two-hour, 2 three-hour and 2 daily/24-hour reservations)
Finance charges \$62	<b>If you drive a fair amount \$153/mo amount</b> A couple trips each week (6 two-hour and 2 four-hour reservations)
Insurance \$134	<b>If you don't drive \$34/mo much</b> About one trip a week (4 one-hour reservations)
Gas \$81	<b>You save hundreds each month. You pay only for what you use.</b>
Maintenance \$76	
Parking (estimated by Zipcar) \$175	
<b>Total: \$843/mo*</b>	
\$843/month is a lot of money! That would get you 114 hours of Zipcar driving, or 16 twenty-four-hour rentals. And remember, gas, insurance, maintenance and parking is included.	

Source: Zipcar web site.

**Exhibit 3** A Selection of Boston Back Bay Zipcars

Car Name	Daily Price	Hourly Price
Civic Cullen	\$65.00	\$8.50
MINI Mojito	\$70.00	\$9.50
Escape Edith	\$75.00	\$10.50
BMW 325 Bethany	\$90.00	\$12.50

Source: Compiled from company web site, December 2004.

**Exhibit 4** Zipcar Boston Plans

**Occasional Driving Plan** Members paid an initial \$25 application processing fee, a \$50 annual fee, and hourly and/or daily usage fees. Gas, parking, insurance, and maintenance were included in all reservations. Credit card information was maintained on file and the card automatically charged after each reservation.

**Extra 50** Members paid an initial \$25 application processing fee, pre-paid a \$50 monthly fee, and received a 10% discount on each month's driving. Usage in excess of the \$50 monthly fee was charged at the prevailing rates. This was a "use it or lose it" plan, meaning that any balance remaining from the \$50 monthly fee did not roll over to the next month.

**Extra 75** Members paid an initial \$25 application processing fee, pre-paid a \$75 monthly fee, and received a 10% discount on each month's driving. Usage in excess of the \$75 monthly fee was charged at the prevailing rates less a 10% discount. Any balance remaining from the \$75 monthly fee was rolled over to the next month.

Source: Compiled from company web site, December 2004.

**Exhibit 5** Zipcar Pricing by Region

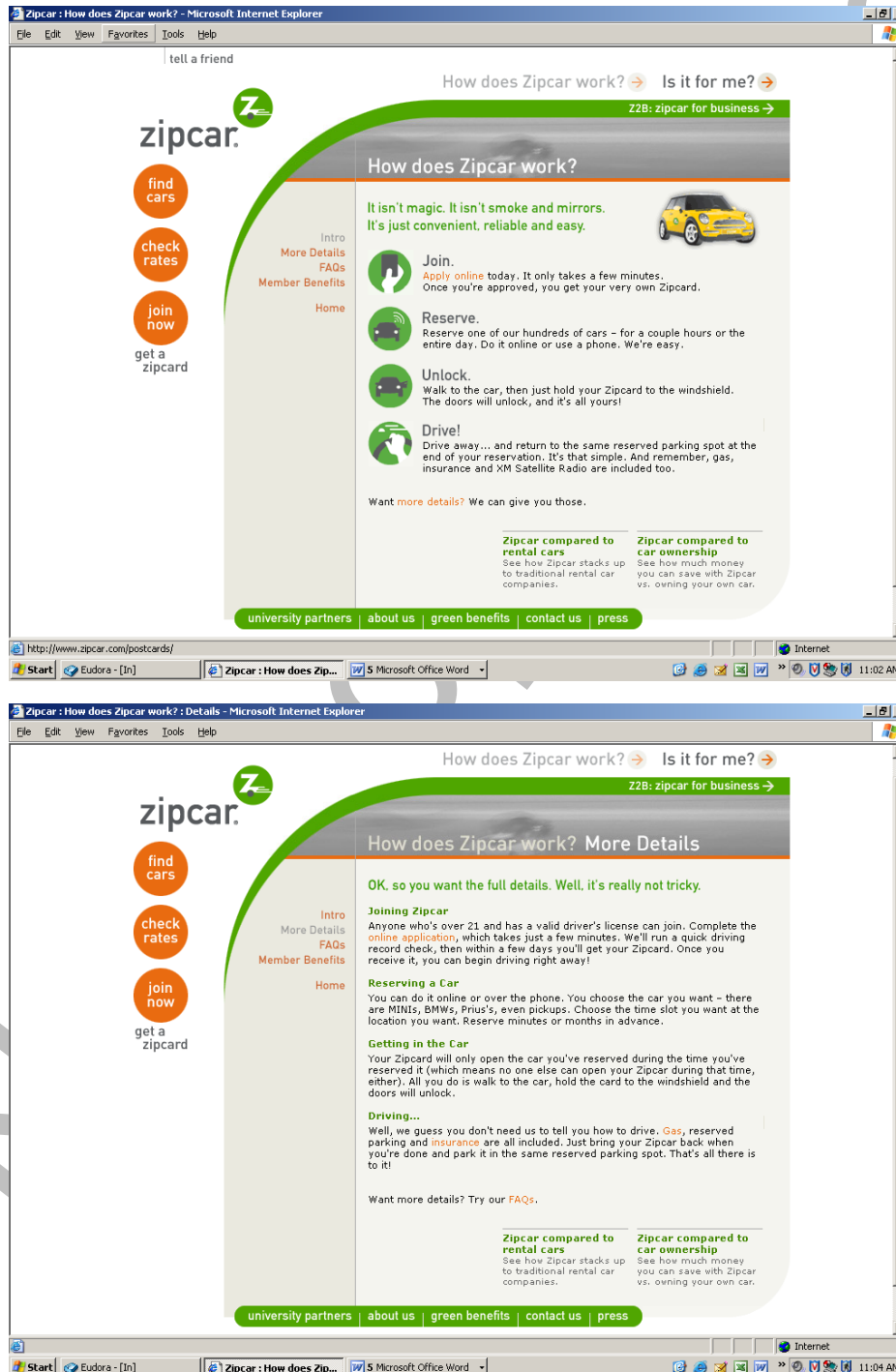
	Daily Price Range	Hourly Price Range
Massachusetts	\$60-\$90	\$8.50-\$12.50
North Carolina	\$55	\$5.00
Washington, DC	\$59-\$89	\$8.50-\$12.50
Maryland	\$59	\$8.50
Virginia	\$59-\$69	\$8.50-\$10.50

## New York/New Jersey Pricing

M-F Daily Price Range	M-F Hourly Price Range	S-S Daily Price Range	S-S Hourly Price Range
\$65.00-\$100.00	\$8.50-\$12.00	\$65.00-\$130.00	\$8.50-\$16.00

Source: Compiled from company web site, December 2004.

## Exhibit 6 How Zipcar Works (Screen Shot from Web Site)



Source: Company web site.