

# Business Ideas - Streetcar

Case duration (Min):

&gt; 60

Principles of Management (PoM)

Managing Small Business Start Ups

Worldwide

## Case summary:

Explores how ideas may be generated and eventually used to define the business model and plan. The problem is set in the context of a new industry. Initially without competition but through growth attract new entrants.

This case considers the emergence of a new industry (Self-service pay-as-you-go cars) and new company, how the business idea was generated and turned to reality.

## Learning objectives:

Understand how companies start-up

Identify threats and analyse competition within an industry

Evaluate business ideas

## Case problem:

Evaluate business ideas and how they are used to start-up a new venture.

Rental &amp; Leasing Services

## Company

Streetcar

[www.streetcar.co.uk](http://www.streetcar.co.uk)

Streetcar was established in 2002 by Andrew Valentine and Brett Akker who came across the idea after reading a US magazine article about a similar scheme. After spending 18 months researching the idea, they launched Streetcar in London in April 2004 with just 8 cars. It immediately took off, and today the scheme has nearly 40,000 members using over 700 locations in 6 UK cities. Streetcar is headquartered in London, UK. Streetcar's mission is to provide a viable mass-market alternative to car ownership across Europe.

Self-service pay-as-you-go cars to urban commuters: Streetcar has cars parked in a dense network of dedicated spaces across London and several other UK cities, typically within a few minutes walk of your home or work. You can use one for as little as 30 minutes or as long as 6 months. They are reserved online or by phone, and can be collected and returned 24/7 using high-tech smartcards. The cost of usage is based on how long you have the car and how far you drive but unless you are a heavy car user, the annual cost of Streetcar will be dramatically less than owning a car and with lots of the hassle of car ownership removed.

First, if you are taking a taught management course then consult with your tutor and ensure that the case has not been scheduled into a teaching class or tutorial. If it has not:

1. Play/ read the media associated with the case. You may need to access the Internet and enter a URL to locate any video clips.
2. Attempt the Case study questions.

Consider attempting the case study as a group exercise; you could form a study group with fellow students.

3. Check the suggested answers - remember these are suggestions only and there are often many possible answers.

Discuss questions and answers with other students.

4. If you feel your answer(s) were weak then consider reading the relevant suggested readings again (also see the case study suggested references).

## Title/ Media type

## URL/ Media description

Business Ideas - Streetcar

<http://www.launchlab.co.uk/article/Business-video/Business-Ideas---Streetcar/268>

### Film

Explores the generation of the business idea

Growing the business - Brett Akker of Streetcar

<http://www.launchlab.co.uk/article/Business-video/Growing-the-business---Brett-Akker-of-Streetcar/256>

### Film

Identifies early problems associated with expansion: establishing an early footprint across London, growing the number of cars and members

### NOTES:

## Case study questions...

Action		Pre/During/After class
<b>1</b>	<b>THE BUSINESS IDEA</b> Many entrepreneurs stumble across inspiration for their business through chance. Not Andrew Valentine and Brett Akker – the duo undertook a determined search for a gap in the market before taking the plunge. The business idea is encapsulated in a model that describes how and why the organization might be successful in a complex environment. The business idea underpins growth and success. Describe and evaluate the Streetcar business idea: how easy would it be for other organizations (potential rivals) to copy it? What will be Streetcars source of competitive advantage? How relevant will their idea be in the future? What are the strengths and weaknesses with the idea? Can the idea be extended?	During
<b>2</b>	<b>INDUSTRY FORCES AND IMPLICATIONS FOR COMPETITION, GROWTH AND PROFITABILITY</b> Using Porters five forces framework, assess source of competition for Streetcar: who are potential entrants to the 'new' car share industry – is there a strong threat of new entrants? What are or may become substitute products or services – how strong is this threat? How much rivalry exists presently? How might this change? Who are the suppliers and how powerful are they? Who are the customers – how powerful are they? Which generic strategy do you expect incumbents and new entrants to favour in this industry? Why?	During
<b>2</b>	<b>CAR POOLS</b> Car pools are enjoying a surge in popularity - with reference to environmental analysis (PESTLE), suggest reasons for this	During
<b>3</b>	<b>COMPETING WITH CONVENTIONAL CAR RENTAL FIRMS</b> Discuss how Streetcar competes with conventional car rental firms	During
<b>4</b>	<b>A MATURING INDUSTRY</b> There has been strong growth of the market - Carplus is predicting the market will grow 11-fold in the next four years –with reference to the industry lifecycle model discuss the implications for Streetcar?	During
<b>5</b>	<b>START-UP PHASES &amp; PROCESS</b> Describe, with reference to the case study, the different phases a typical start-up company may go through	During
<b>6</b>	<b>EXPANSION</b> How might you expand this business in the early months and years following start-up? Next, research how the cofounders actually expanded their business.	During
<b>7</b>	<b>CHALLENGES</b> What are the main challenges facing the company presently?	During
<b>8</b>	<b>TYPES OF BUSINESS ORGANISATION</b> What type of business organisation would you use to form Streetcar?	During

# Answers...

## BUSINESS MODEL

A method by which a company generates revenue to sustain itself.

## SMALL MEDIUM ENTERPRISE (SMES)

generally a business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a microbusiness

## BUSINESS MODEL

A summary of how a company will generate revenue identifying its product offering, value-added services, revenue sources and target customers.

## OPPORTUNITY

A favourable set of conditions that limit barriers or provide rewards

## THREAT

circumstances with the potential to cause loss or harm and may hinder goal achievement

## RIVALRY

the act of competing - a quest to secure an advantage over another

## Question/ Answer

### 1 The business idea

Many entrepreneurs stumble across inspiration for their business through chance. Not Andrew Valentine and Brett Akker – the duo undertook a determined search for a gap in the market before taking the plunge. The business idea is encapsulated in a model that describes how and why the organization might be successful in a complex environment. The business idea underpins growth and success. Describe and evaluate the Streetcar business idea: how easy would it be for other organizations (potential rivals) to copy it? What will be Streetcars source of competitive advantage? How relevant will their idea be in the future? What are the strengths and weaknesses with the idea? Can the idea be extended?

**Streetcar business idea: Self-service pay-as-you-go cars to urban commuters**

**How easy would it be for other organizations (potential rivals) to copy it? Relatively easy**

**What will be Streetcars source of competitive advantage? Initially attracting custom from rival industries, the organization may pass future scale benefits on to customers as price reductions and/ or improve its service, making more cars available in more locations.**

### 2 Industry forces and implications for competition, growth and profitability

Using Porters five forces framework, assess source of competition for Streetcar: who are potential entrants to the 'new' car share industry – is there a strong threat of new entrants? What are or may become substitute products or services – how strong is this threat? How much rivalry exists presently? How might this change? Who are the suppliers and how powerful are they? Who are the customers – how powerful are they? Which generic strategy do you expect incumbents and new entrants to favour in this industry? Why?

There are few barriers to entry (cost of cars being the main capital expenditure and this could be avoided) making this a relatively easy industry to enter. The main issue is whether the market size is attractive enough to motivate entry. A strong incumbent with established locations and large fleet of car is likely to provide a better service thus raising barriers (capital required) to entry. Through the internet, most competitors would have almost equal access to potential customers. However, advantages may be gained by developing relationships with organizations that contained numerous potential customers. Presently, customer loyalty is not likely to act as a significant barrier to entry. The industry is young and price sensitive. Whilst there may be some first mover advantage in terms of experience, this is unlikely to offer a significant or long term advantage. Despite this being essentially an industry emphasising cost based advantages, there is some scope for differentiation through location, vehicle choice and customer relationship management. Substitution (alternatives) reduces demand and may come from other forms of public transportation. Suppliers, include the car manufacturers, do not have much power in this industry and rivals can chose from many car manufacturers – supplier switching costs are low. Buyers presently have little power due to a lack of competition. Buyers may be concentrated in some cases and these groups will be more powerful. Switching costs are relatively low, increasing customer power. Rivalry is presently low but will increase as the industry grows and matures.

### 2 Car pools

Car pools are enjoying a surge in popularity - with reference to environmental analysis (PESTLE), suggest reasons for this

Car pools are enjoying a surge in popularity due to concerns over pollution (they arguably take cars off the road – ecological forces) as well as the credit crunch (it is a cheaper option for the user who does not have a capital outlay – economic forces). One estimate suggests that motorists who drive less than 6,000 miles a year could make an annual saving of up to £1,500 by joining a car club rather than owning their own vehicle. Increased car taxes also increase the benefit associated with not having a car i.e. car ownership costs are increasing. Other costs include: fuel, parking, finance and insurance. Socially, self-service and pay-as-you go are culturally acceptable (see mobile phones for example). Politically, car pools fit with governmental goals to reduce the number of cars on the road. Finally, new technologies support the operation of pay-as-you go models with smart card and web technologies adopted.

### 3 competing with conventional car rental firms

Discuss how Streetcar competes with conventional car rental firms

A car rental, rent-a-car or car hire agency is a company that rents automobiles for short periods of time (ranging from a few hours to a few weeks) for a fee. The car is typically collected from the renter's office or delivered to the customer's location. Cars are typically rented by the day. Valentine and Akkers felt that they could take on conventional car rental firms by offering customers a near-by location to pick up the vehicles (the easy-to-reach aspect of the service) and convenient, 24-hour accessibility. The business is aimed squarely at urban commuters who need a car for a short period of time. It's estimated that there are over one million people in this target market area in London alone.

### 4 A maturing industry

There has been strong growth of the market - Carplus is predicting the market will grow 11-fold in the next four years –with reference to the industry lifecycle model discuss the implications for Streetcar?

The lifecycle model is a means to help understand how industries and products evolve. The Product Life Cycle (PLC), see figure, is a theory based upon the biological life cycle (we first considered it in chapter 2 when discussing industries); it is a marketing tool for evaluating products - a model that provides a framework for thinking in detail about product policy, product introduction and product elimination. After a period of development a product is introduced or launched into the market; it gains more and more customers as it grows; eventually the market stabilises and the product becomes mature; then after a period of time when the product is overtaken by development and the introduction of better competitors, it goes into decline and is eventually withdrawn. A variety of strategies for the differing stages of the PLC may be considered. During growth, advertising spend is high and there is a focus upon building brand. In mature markets, producers attempt to differentiate products (brands are key to this). Price wars and intense competition occur. At this point the market reaches saturation. Producers begin to leave the market due to poor margins. Promotion becomes more widespread and uses a greater variety of media.

During growth, new entrants emerge increasing the number of rival firms. The arrival of Hertz may spur other big car-rental companies to enter the market and the US giant could use its bigger scale to undercut Streetcar on price.

### 5 Start-up phases & Process

Describe, with reference to the case study, the different phases a typical start-up company may go through

Stage 1 - the Idea ...Stage 2 - Market Research ...(Before taking the final plunge, or even starting your business plan, it is imperative to conduct some form of market research.); Stage 3 - The Planning ... Having formalised your ideas in your own mind, the next step is to prepare a business plan. Stage 4 - register the company and create the infrastructure necessary to offer the goods/ services and Stage 5 - Generate revenue through sales...

Other matters to consider may include:

1. Ownership
2. Location
3. Which Company Structure?
4. Naming your Business
5. Business Planning
6. Business Taxes
7. Value Added Tax
8. Self Assessment
9. Accounting
10. National Insurance
11. Business Banking
12. Business Insurance
13. Raising Money
14. Getting Paid
15. Marketing & PR
16. Sales
17. On The Web
18. Employing Staff
19. Employing Staff - Legal Issues
20. Office or Home
21. Technology

### 6 EXPANSION

How might you expand this business in the early months and years following start-up? Next, research how the cofounders actually expanded their business.

STREETCAR, the pay-as-you-go car-rental club, has raised £6.4m to help fund its expansion - The company, which has more than 10,000 members, will use the financing from Smedvig Capital to increase the size of its fleet of Volkswagen Golf cars and to continue its growth outside London.

## 7 Challenges

What are the main challenges facing the company presently?

Perhaps one of the biggest challenges facing Streetcar and its rivals will be maintaining service levels in a up-and-coming market. Akker says this is "absolutely crucial" as 40 per cent of Streetcar's members find out about the service through word of mouth. With big companies such as Hertz set to challenge the entrepreneurial standard-bearers, it will now be more important than ever for the car-club industry to ensure that members feel too content to leave.

## 8 Types of business organisation

What type of business organisation would you use to form Streetcar?

The most common types of business organisation are as follows:

- limited companies
- sole traders
- partnerships
- cooperatives

students should evaluate each option, considering advantages and disadvantages of each

for a detailed review of advantages and disadvantages see Cole and Kelly (2011 chapter 12)

## Case study references

Cole, G A. and Kelly, P P. (2011) 'Management Theory and Practice', Ed. 7. Cengage EMEA.

Johnson, G., Scholes, K. and Whittington, R. (2006) 'Exploring Corporate Strategy Enhanced Media Edition', FT Prentice Hall.