UNITED STATES INTERNATIONAL UNIVERSITY

M.SC IN MANAGEMENT ORGANIZATIONAL DEVELOPMENT

MANAGEMENT OF CAR HIRE ORGANISATION IN KENYA

BY

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INTRODUCTION

Management involves the co-ordination of human and material resources towards objective accomplishment. We often speak of individuals managing their affairs but the usual connotation suggests group effort. Four basic elements can be identified.

(a) toward objectives
(b) through people
(c) via technics
(d) in an organisation

Typical definition suggest that "management" is a process of planning, organising and controlling activities others include assembling resources, motivating and concept of decision making.

In management, managers are needed to convert the disorganised resources of men, machines, money, time and space into a useful and effective enterprise, whereby these unrelated resources are integrated into a system for objective accomplishment. A manager gets things done by working with people and physical resources in order to accomplish the objectives of the system.

In Kenya, the Car Hire organisation have limited resources therefore the management’s task is one of integrating and co-ordinating these organisationed resources (i.e. man, material, money, time and space) towards the accomplishment of objective as effectively and efficiently as possible.
A MANAGING RESERVATION

A reservation is a commitment to a customer that the car hire company will provide a car at the time and place requested. When taking a reservation, concern should be given to the possibility that for any unforeseen reasons a car may or could not be available as requested by the customer. However, confirmed reservations are "sacred" and must be honoured at all times. The reservation is an indication of business the company expects to receive. It also provides valuable information regarding the type of business, tourist, business house, airlines etc., the types of cars needed and methods of payments to be used etc.. It is imperative that reservations are handled correctly and that the correct reservation procedures are used to ensure that our customers experience only the most efficient service. 2 Reservations are sold to customers by reference to car groups and not to specific makes or models of cars unless specifically requested and where the customer will accept no other car.

1 RESERVATION STATUS:

AUTOMATIC CONFIRMATION (ACFM)

Automatic confirmation means that a car group can be automatically confirmed to the customer at the time of making the reservation and without asking the renting station. International and Multi-National car rental companies who have overseas reservations, ACFM status is applicable only when a reservation is made twelve hours before the rental is due to commence.

---

1 Kast & Rosenzweig, Organisation and Management: second edition Mc Graw Hill Kogakusha Limited P. 438

REQUEST CONFIRMATION (REQ)

The request status applies when a car group must be requested and confirmation should be obtained from the renting station before it can be confirmed to the customer. Kenya being very seasonal on Car Hire business due to its tourist season, then request status does apply during peak season of the year when certain groups of cars are in short supply due to high demand during that period. This status also applies when special equipment, deliveries or one way charges are required. These rates are only available on request basis.

STOP SELL

Stop Sell means that a station office or a country normally having cars in automatic confirmation status has requested its overseas or local contacts that no reservation should be passed to them for a specific period of time. This status is initiated because the number of reservations already received is equal to the number of cars available for the period of time and assuming that they are at the highest utilization ratio. 3

2 RESERVATION CONVERSATION

The management aspect of reservation conversation can be divided into three categories: 4

(a) the opening statement
(b) the leading questions
(c) the closing statements


4 Internal Memorandum, Administration of Reservation Conversation Director of International Car Hire Organisation - June 1979
A OPENING STATEMENT:
"This is Company Y Reservation, Miss X Speaking, May I help you?"
The opening statement lets the customer know that he had reached the right company and to whom he is speaking and gives a positive first impression that someone wants to help him. This reservation is on telephone.

B LEADING QUESTIONS
- At which Station will you be renting?
- May I have the date and time of rental?
- May I have the airline and flight number?
- What group of car do you prefer?
- At which Station will you return the car?
- May I have the date and time you're returning?
- May I have your surname and your initials?
- What credit identification will you use? that is mode of payment
- May I have your company name and personal contact?

C CLOSING
Mr. XY, I am confirming a Group "B" for your arrival at Moi Airport, Mombasa on flight KQ 355 on the 6th July at 6.45. May I help you with any other reservation?
Thank you for your reservation.

2 COMMUNICATION MEDIA
There are three ways of transmission of reservation information and it is essential that the most effective way is used at all times.  

TELEX
Telex is to be used whenever possible as it is the most effective method available especially with International or Multi-National companies who have overseas reservation centre. This provides visible evidence that the reservation has been transmitted.

RESERVATION ADVICE
A documental reservation advice is prepared on receiving a reservation when (a) Within the same country (b) Rental date has enough time so that the advice can be posted and could reach them in good time before rental date.

TELEPHONE
The telephone should be used to pass reservations where telex is not functioning or is engaged and the reservation is within twenty four hours.

4 RESERVATION CONTENT
All reservations in a Car Hire business can be broken into basic portions, the sum of which will constitute a comprehensive yet simple list of all information needed to complete a rental agreement.

NAME
1 Reservations are held under a specific name.
2 Repeat and verify a name when received. Do not guess.
3 Obtain initials on all names. On common names "Smith" etc request two initials.
4 Where more than one individual is concerned get all of the names. If this is not possible request for the key person in the party.
ARRIVAL
If a reservation is for other than a local rental, obtain the customers arrival date and time at the renting Station.

1 Means of Arrival
   - If by plane or train get the arrival and number of the flight or train
   - If by bus, private car or other surface means ask for the time of arrival
   - Confirm the exact station or office at which the rental will be made

2 Time of Arrival
   - If an airline flight or train number and day of arrival is given, it is desirable but not necessary to obtain the scheduled arrival time. The station receiving the reservation will be responsible for checking to see if the carrier is operating on schedule.

3 Date of Arrival
   - Ascertain the specific day of the month the customer will arrive.
   - Verify the day and date with a calendar while conversing with the customer.
   - Do not assume the arrival date will be the date of rental. It is possible that he may be arriving a day or two before the rental date. Confirm exact date of rental.

TYPE OF CAR
Determine from the customer the make and model of the car desired.

1 Small Car - usually 4 seats - Group A & B
2 Medium/Small Car - usually 4/5 seats - Group C & D
3 Medium/Large Car - usually 5/6 seats - Group E & F
LENGTH OF RENTAL
The duration of a rental is of importance to the Renting Station. It is a determining factor in car control and availability.

1. Express the anticipated length of rental in number of days.
2. If one week precisely, state as much.
3. If over one week obtain the inclusive dates i.e. November 4th through November 14th.

The fore mentioned information is sufficient in most instances to complete overseas and local inter-station reservations mostly applicable to Franchise/Joint Venture/Multinational Company in Kenya.

5. In Kenya the source of business is categorised as follows:
   6
1. OVERSEAS - TOURIST
   Where reservations are received directly from overseas countries through overseas office, travel agent, tour operators etc.
2. WALK IN CLIENT
   These are customers who wish to hire out cars without prior reservations and could be turned down if a car is not available.
3. BUSINESS HOUSES
   In Kenya there are lots of International Companies who pass reservations direct to Car Hire companies for their requirement locally and overseas.

---

4 HOTELS/LODGES/TRAVEL AGENTS/AIRLINES
Kenya being a popular Tourist Country in the Western World, it caters for a very high volume of tourists during the seasonal periods. Therefore, these car hire requirements are passed to Car Hire Organisations.

5 TOUR OPERATORS
In Mombasa and Malindi the popular coastal strip and the famous beach have direct flight from Europe and caters for groups or package tours thus tour leaders pass the requirement of the group on car hire to the local companies in these town. Also the beach boys play a major role in convincing the tourist to rent a car from particular companies as their commission is reserved.

The above classification does have an impact on the strategies to be applied on the Marketing aspect of the business.
MANAGING FLEET - FORECASTING AND CONTROL

Car Hire business is inter-connected or move parallel with the tourist season in Kenya. Kenya being a tropical country in Africa it has adverse seasonal effects to that in Europe. Which means that when we have long rains (winter) in Kenya there is summer in Europe and vice versa.

This is illustrated in a graph form.
Historical demand experience can be forecast by three general techniques (1) straightforward extrapolation of the average demand experience during a historical base period; (2) a weighted average, or similar technique which attaches greater significance to more recent historical demand experience and (3) an extrapolation of a noticeable trend in historical demand experience.  

For example, a forecasting model may assume that the means of future observations will be the same as that observed in the past. The forecast is, then, a straightforward extrapolation of the mean, which is estimated from historical data. Another model for forecasting may assume that a linear trend observed in the past will continue into the future. Still another may assume that cycles observed in the past will be repeated. These models are illustrated in Figure 1.

(1) HISTORICAL AVERAGES

The simplest forecasting model is the extrapolation into the future of the mean of past observations. There are however, several ways of computing this historical average.

This section will describe three different methods known as (a) moving average (b) weighted moving average (c) exponential smoothing

(a) MOVING AVERAGE

Where the average of recent experience is judged to be a good indicator of demand in the next period, a moving average can be used.

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7 George W. Wilson - Transportation Service Special Publication of the New York Academy of Science - August 1967. P.71 - 75
To illustrate: A manager decides that the average demand in the five most recent weeks is his best indicator of demand next week. He picks five weeks as long enough so that the forecast will not be influenced unduly by chance variation in a single week. But he also picks five weeks as short enough so that the forecast is not unduly influenced by "old data". Demand in the past five weeks were: 104, 115, 101, 120, 115. He averages these to obtain the forecast.

\[
\frac{104 + 115 + 101 + 120 + 115}{5} = 111
\]

(b) **WEIGHTED MOVING AVERAGE**

If our Manager decides that a simple moving average is not sensitive enough to the most recent data, he can use a weighted moving average. Here the manager decides to continue with an average of five weeks but to weight the most recent week by 5, the previous week by 4 and earlier week in backward order by 3, 2 and 1. He then computes a forecast from the same weekly demands as follows: -

\[
\frac{(115 \times 1) + (101 \times 2) + (120 \times 3) + (115 \times 4) + (119 \times 5)}{1 + 2 + 3 + 4 + 5} = 115
\]

Note that by weighing more heavily the recent demands, which were above average, the forecast is higher.

---

8 Anthony, Wren Computers In Transport Planning and Operation Par Demand Forecasting By J. D. Carr, University of Leeds Published By Ian Allen Limited 1971, P 33-43
In order that fleet programming or forecasts are carried out adequately so as to achieve best utilization, the following are some of the technics that can be relevant to forecast demand. In the process of forecasting, management has a number of specific interest. These include.

**STRUCTURE**

- Deciding what forecasts are needed.
- Organising information in a form relevant for forecasting.
- Identifying areas where efforts should be concentrated.

2 **FORECASTING METHOD**

- Choosing methods of forecasting that meet the forecasting needs (e.g. long term or short term)
- are appropriate for the situation and the information available
- are cost effective
- Determining the Key parameters in the forecasting methods e.g.
  - Isolating Key indicators in economic forecasting
  - Selecting the weighting factors in short term, weight forecasts such as potential smoothing
  - Deciding on Key assumptions

3 **STATISTICAL FORECASTING**

Statistical tools, are, at best, only a part of forecasting. Management might know that circumstances had changed, a new source of supply had been introduced; supply of product had been cut off; the industry's needs for a product had increased; etc. The managers' knowledge and judgement of the total situation determine when statistical projections should be used and how reliable they may be and in many cases must overside statistics. However, this fact is no reason for not using statistical tools whenever possible.
EXponential SMOOTHING

"Exponential Smoothing" is a form of a weighted moving average. If we multiply the most recent demand by 0.2 and multiply a figure averaging the demands of previous week by 0.8 and sum, we will have performed two operations - weighting and averaging. If we do this week after week each new week multiplying the most recent demand by 0.2 and previously calculated weighted average by 0.8, each new average is used as a forecast for the next period.

For example, if the previous weighted average is 104 and the current week’s demand is 115 then we can calculate the forecast for the next period.

\[
\text{Forecast Demand} = (104 \times 0.8) + (115 \times 0.2)
\]

\[
= 83.2 + 23.0 = 106.2
\]

If the actual demand for the next week turns out to be 1010 then the forecast for the week after that would be:

\[
\text{Forecast Demand} = (106 \times 2 \times 0.8) + (101 \times 0.2)
\]

\[
= 85.0 + 20.2 = 105.2
\]

If we take the figures for demand from the moving average example above, we get the results shown in Table 1 below.

<table>
<thead>
<tr>
<th>Previous Forecast</th>
<th>2 Weight</th>
<th>3 Col 1 x Col 2</th>
<th>4 Most Recent Demand</th>
<th>5 Weight</th>
<th>6 Col 4 x Col 5</th>
<th>7 New Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>104</td>
<td>0.8</td>
<td>83.2</td>
<td>115</td>
<td>0.2</td>
<td>23.0</td>
<td>106.2</td>
</tr>
<tr>
<td>106.2</td>
<td>0.8</td>
<td>85.0</td>
<td>101</td>
<td>0.2</td>
<td>20.2</td>
<td>105.2</td>
</tr>
<tr>
<td>105.2</td>
<td>0.8</td>
<td>84.2</td>
<td>120</td>
<td>0.2</td>
<td>24.0</td>
<td>108.2</td>
</tr>
<tr>
<td>108.2</td>
<td>0.8</td>
<td>86.6</td>
<td>115</td>
<td>0.2</td>
<td>23.0</td>
<td>109.6</td>
</tr>
<tr>
<td>109.6</td>
<td>0.8</td>
<td>87.7</td>
<td>119</td>
<td>0.2</td>
<td>23.8</td>
<td>111.5</td>
</tr>
</tbody>
</table>
In this method any two figures that add up to 1.0 can be used to weigh the forecasts. In our example we use 0.8 and 0.2. The lower figure (applied to the most recent period), in our example, 0.2, is called the smoothing constant. If it is made relatively large (0.3 to 0.4) then the forecast is quite sensitive to the recent actual demand. If it is smaller (around 0.1) then less weight is attached to recent demand figures and the forecasts tend to reflect the underlying trends.

**LINEAR TRENDS**

The preceding section has described three technics for computing and updating the one parameter of the simplest forecasting model that is, where the forecast is an extrapolation of the average of past observations. Figure 1 illustrates that better forecasts may, in certain instances, be obtained by the detection and extrapolation of a linear trend.

This can be done graphically by plotting the observations along a time scale and fitting a trend line by eye, such as in figure 1. There is also a mathematical procedure for fitting a trend line to a series of observations. This is known as the least square trend line, since it is located so as to minimise the sum of the square of each of the deviations away from the trend line.9

**SEASONAL VARIATIONS**

To eliminate seasonal variations it is necessary first to calculate index numbers. These might be quartely, monthly or even weekly index numbers. As an example, assuming we are to establish monthly index number, a sequence of step is

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9 M. J. Bruton - Introduction To Transportation - Methods of Forecasting. Hutchinson & Company Limited - New Material 1975 P. 90 - 95
Step 1: Calculate average monthly demand for each year

Step 2: Divide actual demand for each month of a year by the average monthly demand for that year. This gives monthly Index Number for each month of one year. Repeat for each year.

Step 3: Average the index numbers for all January's to give the overall January index number. Repeat for all other months.

Step 1-3 Calculated monthly index numbers. An example of the calculation of index numbers for demand on a quartely basis is shown in Table 2, below.

**CALCULATION OF SEASONAL INDEX NUMBERS**

<table>
<thead>
<tr>
<th>Year Qty</th>
<th>Actual Demand</th>
<th>Index Act Dem Ave</th>
<th>Year Qty</th>
<th>Actual Demand</th>
<th>Index Act Demand Ave</th>
<th>Average Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-1</td>
<td>67</td>
<td>.91</td>
<td>1979-1</td>
<td>70</td>
<td>91</td>
<td>.91</td>
</tr>
<tr>
<td>1978-2</td>
<td>51</td>
<td>.69</td>
<td>1979-2</td>
<td>51</td>
<td>.66</td>
<td>.68</td>
</tr>
<tr>
<td>1978-3</td>
<td>88</td>
<td>1.18</td>
<td>1979-3</td>
<td>94</td>
<td>1.22</td>
<td>1.20</td>
</tr>
<tr>
<td>1978-4</td>
<td>90</td>
<td>1.21</td>
<td>1979-4</td>
<td>93</td>
<td>1.21</td>
<td>1.21</td>
</tr>
<tr>
<td>Total</td>
<td>296</td>
<td></td>
<td>308</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>74</td>
<td></td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TABLE 2**

Step 4: In forecasting from one month to the next, divide the most recent actual monthly demand figure by the appropriate index number to give a "reasonably adjusted" demand figure. Add this figure to the existing series, and produce a seasonally adjusted forecast for the next period. Then multiply that forecast by the appropriate monthly index number to reintroduce the seasonal factor into the forecast.
UNCERTAINTY AND CONFIDENCE IN FORECASTS

Many of the decisions made from forecasts, such as the stockage of spare parts, planning transportation facilities and so forth, require information about the uncertainty of an estimate. The measurement of uncertainty is particularly important to the manager in that it enables him to determine the level of confidence that he can put on any particular forecast. For example, in making projections of the demand for a service industry (Car Hire) if the uncertainty in the forecasts can be measured, then it will be, say 2000 units with confidence of 90% (that it will be plus or minus, say, 120 units). If the uncertainty was greater, then we could say either the confidence that the forecast would be within this figure would be less then 90% or, that at the same 90% confidence level, the possibility range of actual demand would be greater.

4 "NON - STATISTICAL" FORECASTING

The statistical forecasting techniques of the preceding section are based on history. The forecasting methods to be described briefly in this category are based on judgment about and analysis of future events, although an element of that judgment will frequently be a sound understanding of the historical figures.

2 INFORMED JUDGEMENT

Salesmen and managers in many businesses have a "feel" for what demand will be in the future. What this subjective view lacks in objectivity and detailed analysis may be offset by knowledge of customers and competitors' plans and by knowledge of other factors, such as technological changes. Such forecasting may be built up from an individual salesman's forecasts, through district sales forecasts to a combined total country sales forecast. The opinion of individuals along the way may be given equal or unequal weights. Where opinions are substantially at variance, however, it is desirable to discuss the differences in underlying assumptions in order to seek out a "best" combines judgement.
Some companies do not use broadly based opinion, but only the opinions of one or two individuals working at higher levels. In setting forecasts of demand in these ways, there is the possibility of confusions among (a) subjective judgement (b) responding to "what the Chairman expects" (c) goal setting projections.

A forecast arrived at by informed judgement can be very useful as a check against a statistical forecast, and particularly as the time span of forecasts lengthen, informed judgement may do a better job than statistical projection in allowing for future events affecting demand.

(b) **MARKET SURVEY**
Market surveys may be simply the collection of opinions of customers or may be carefully designed "fact finding" questionnaires or interviews. Such analysis are particularly useful in forecasting when there is reason to believe that future demand may depart from the pattern of past demand or when there is no historical pattern on which to base a statistical projection.

(c) **ECONOMIC STUDIES**
The trade and demands for many products like steel, machine tools, consumer products, change with economic conditions. Hence economic forecasts may be meaningful input to the forecasting of demand for particular products. Economic forecasts can be found in the business sections of magazines and newspapers and in published studies by banks and trade organisation or employers association. 10

(d) **ECONOMIC INDICATORS**
Government banks and trade organisations publish a variety of "time series" (a series of numbers over time) which show such things as housing starts, business failures and consumers credit outstanding.

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10 Federation of Kenya Employers Newsletter - February 1979 Supplement. P 5 - 10
Economic indicators are sensitive series which tend to turn up or
down in advance of, concurrent with, or after some cyclical measures
that you are trying to forecast.\textsuperscript{11} Figure 2 illustrates the concept
underlying the use of indicators. The vertical lines indicate the
peak and trough date of a cycle which has been indentified.

Figure 2

\textbf{ECONOMIC INDICATORS ILLUSTRATED}

\begin{center}
\begin{tikzpicture}
\begin{axis}[
    width=\textwidth,
    height=0.5\textwidth,
    xticklabels=none,
    yticklabels=none,
    axis lines=middle,
    xlabel={TIME},
    ylabel={PEAK DATE OF FORECAST ITEM},
    xmin=0, xmax=5,
    ymin=0, ymax=5,
    xtick={0,1,2,3,4,5},
    ytick={0,1,2,3,4,5},
]
\addplot[domain=0:5, samples=100, color=red] {x};
\addplot[domain=0:5, samples=100, color=blue] {x - 0.5};
\addplot[domain=0:5, samples=100, color=green] {x - 1};
\end{axis}
\end{tikzpicture}
\end{center}

Line A shows a leading indicator, that is, a series which reaches its
peak in advance of the peak of the cycle being forecast. A roughly
coincident indicator is illustrated by line B. The lagging indicator
shown in Line C peaks after a peak of the cycle being forecast.
Similarly, troughs will lead or lag respectively.

In some cases it is possible to correlate changes in demand for a
product with movement in one or more of these published time
series.

\textsuperscript{11} Raymond R. Mayer - Production and Operations Management,
For instance, "new car registration" may be correlated - with a time lag - with the sale of replacement equipment. Such a "leading indicator", when found to be reliable over time, is most useful in forecasting demand. Unfortunately, the number of reliable leading indicators is small.

**REGRESSION ANALYSIS**

A mathematical approach called regression analysis can be used to find an equation between the demand for the product being forecast and a leading indicator. Then as the published time series is updated the equation is used to derive expected demand.

The aforementioned technics can be used to forecast fleet demand by a car hire organisation in Kenya and should eventually derive at Fleet Programme Chart as illustrated in Figure 3. 12

After having forecasted the fleet demand, the Station Manager has on hand No of units that he has to control and manage, at his station, through good fleet control, station managers make their most important contribution to the profit of their Station district and country operations.

---

12 Internal Memorandum, Fleet Management and Programme, Systems Department, Car Hire Organisation - December 1979
<table>
<thead>
<tr>
<th></th>
<th>120</th>
<th>120</th>
<th>120</th>
<th>140</th>
<th>160</th>
<th>160</th>
<th>160</th>
<th>133</th>
<th>131</th>
<th>121</th>
<th>117</th>
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<td>8</td>
<td>10</td>
<td>25</td>
<td>17</td>
<td>10</td>
<td>4</td>
<td>7</td>
<td>112</td>
<td>117</td>
<td>117</td>
</tr>
</tbody>
</table>

**July 1979**

**Beginning of Month**

**End of Month**

**Sales Purchases**

**Forecast Plant Programme For The Year**

**Figure No.** 4
TSAVO DISTRICT
(JANUARY 1979)

(5) COST PER CAR PER DAY

<table>
<thead>
<tr>
<th>KENYA SHILLINGS</th>
<th>PER DAY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation/Lease</td>
<td>49.32</td>
</tr>
<tr>
<td>Licences/Inspections</td>
<td>16.45</td>
</tr>
<tr>
<td>Insurance</td>
<td>5.50</td>
</tr>
<tr>
<td>Interest</td>
<td>18.08</td>
</tr>
<tr>
<td><strong>ONE CAR</strong></td>
<td><strong>89.35</strong></td>
</tr>
</tbody>
</table>

Average Revenue Per Car Day = 164.00

Car Costs Represents 54.5% of Revenue

This illustration gives an indication to the Manager that for renting one car in a day would cost so much. Therefore, the critical factor in fleet management is "Better Utilization". Utilization is measured as percentage of car rental days over total days available.

(6) Where are the vehicles:

**ON RENT**
- Local
- Lease

**AVAILABLE**
- Ready Line
- Check Ins
- Being Prepared
- Being Transferred
- Waiting for Collection etc
OUT OF SERVICE

- Waiting for Repair
- Being Repaired
- Waiting for transfer
- Waiting for Collection
- Waiting for Parts
- Damaged/Accidents etc

With the above breakdown gives the Manager an up to date condition or situation on his fleet and can tackle his reservations accordingly. We would discuss these conditions of categories separately.

(b) ON RENT

Here the cars are out on rent under various classification e.g. self drive, lease, chauffeur driven order and does not need much of a skill to control or manage.

(c) AVAILABLE

Some of the cars under the Station Managers control will be ready for rental, others be in the process of being prepared, waiting for preparation or transfer or awaiting collection etc. 13

It is very prudent that the Station Manager make best use of cars if not at his own Station then the number of cars awaiting collection should be transferred, this depends on how well you plan the use of your manpower and the location of the collection. If they are on station waiting for transfer, the station manager may try to rent them or move them more quickly. This will save his Station the fixed per car cost discussed earlier and may also fetch revenue to other stations if utilised.

13 Condition Report, Fleet Allocation Programme International Car Hire Company - Survey December 1979
(d) **OUT OF SERVICE**

Out of service cars need again to be managed effectively as one day in repair shop is costing us money. The number of cars being repaired in the workshop can be influenced by (a) changing the facility (b) its utilisation (c) the manpower level (d) the level of efficiency etc.

If cars are being repaired by the outside (dealers) workshops, then it could be influenced by (a) effective planning and communication (b) prompt delivery and collection (c) accurate control of time taken and the location of vehicles in outside repairs.

These are all factors which effect utilisation of the fleet. If we can reduce the amount of time that the vehicle spends in any one of the categories under "available" or "out of service" we will be able to rent the vehicles and increase revenue and hence inflate profits.

(e) **CATEGORY OF SUPPLY OF CARS**

<table>
<thead>
<tr>
<th>KNOWN</th>
<th>UNKNOWN</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Available</td>
<td>- One Way Check-Ins</td>
</tr>
<tr>
<td>- Out of Service</td>
<td>- Additional Out of Service</td>
</tr>
<tr>
<td>- Local Check Ins</td>
<td>- Local check ins</td>
</tr>
<tr>
<td>- Other Station Supply</td>
<td>- Additional O Station Supply</td>
</tr>
<tr>
<td>- Collections</td>
<td>- Breakdowns</td>
</tr>
<tr>
<td></td>
<td>- Accidents</td>
</tr>
<tr>
<td></td>
<td>- Additional Collections</td>
</tr>
<tr>
<td></td>
<td>- Exchanges</td>
</tr>
</tbody>
</table>

So far we have concentrated on one aspect of supply of cars at the present time to obtain the best utilisation. A Station Manager has to forecast the demand for cars and match the supply as closely as possible.
Illustrated below is the category of known and unknown demand.

**DEMAND**

**KNOWN**
- Reservation - Local
  - One Way
- Deliveries
- Other Station Demand

**UNKNOWN**
- Additional Res - Local
  - One Way
- Additional Deliveries
- Additional Other Station Demand
- Walk-Ins-Client
- Breakdowns
- Accidents
- Exchanges

The Station Manager can forecast demand for next day through reservations received but unknown factors of demand are unpredictable e.g. A client walks in for a car or needs a car to replace a breakdown.

Fleet Control is a skill which can only be improved by constant practice at making the necessary decisions.\(^{14}\)

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\(^{14}\) J. Morley - Director of Systems, quote his presentation on Fleet Control - Paris Convention International Car Hire March 1979
7) VEHICLE SALE AND PURCHASES

In Kenya currently there is a restriction imposed on importing passenger vehicles and the dealers are only allowed a certain quotas, this has made Car Hire organisations to clinch deals of as many cars as possible and plan these requirement for a year in advance. With this high demand the dealer are reluctant to enter into any kind of buy back agreements which the car hire organisation use to enjoy the privilege.\(^{15}\) However, the spiral of supply and demand does effect the market demand for second hand cars. Supply of new cars are limited therefore demand for used car increases, thus the market prices shoot up.

Two main types of deals on car purchases in the current condition are:

(a) **Outright Purchase:**

Here cars are bought outright on cash basis.

(b) **Lease Hire Purchase:**

Here cars are bought through financial institutions under a lease hire agreement of 12 months or 18 months depending on the Car Hire organisations requirement. Monthly installments are paid including the interest element of 12% - 14% on the total sum financed. These deals are mainly restricted to limited companies who can provide adequate security to the financial institutions. International or Multi-National organisation in Kenya are restricted to a ceiling imposed by Central Bank on borrowing facilities from either the banks or the financial institutions. This is 40% of the foreign equity capital.

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\(^{15}\) Buy Back Agreement, are entered into by Car Hire Organisation and the dealer agreeing on a price for vehicles sold if returned back after 12-16 months or 30,000 Kms which ever commensurate first
C MARKETING

People in all parts of the world have much the same basic needs and desire. They must have food and shelter and they seek comfort, security and pleasure but the ways in which these are satisfied show a myriad of variations and out of these variations arise the problem of marketing.\textsuperscript{16} People like different types of products, they are attracted by different appeals and the marketing structure evolve to serve their needs are different etc.. The skill of the International Marketer lies in the capacity to understand all of these difference and to convert the understanding into selling patterns which will effectively carry his products through the maze of International Marketing conditions to satisfy the needs and desires of the population.

1 THE ROLE OF THE MARKETING FUNCTION

For a business, the needs of consumers are its raison d'etre. Consumers when they become customers provide revenue in exchange for the satisfaction of their needs that the business can give. All commercial companies must therefore, take into account the interests of the consumers of their products and services. To stay in business they must think of the consumers short, medium and long term interests.

In very broad terms it is the primary role of the marketing function to represent the needs of the consumer inside the company. Without a marketing function the company sooner or later loses touch with its markets. When that happens, it ceases to meet the needs of its consumers and its market share is lost to the competitors.

\textsuperscript{16} Committee on Definition, Marketing Definitions A Glossary of Marketing terms (Chicago American Marketing Association 1960)

P. 15 - 20
But the marketing function has a secondary role within the company. Working with the other functions - product research and development, production, purchasing personnel - marketing must help to find and to implement profitable ways to exploit market opportunities. It must therefore, be aware of what contribution to the company's profit will derive from different market opportunities and the marketing function must also manage the cost of its own marketing operations so that the return to the company is optimised. The marketing function is concerned with profit, it is not only concerned with revenue, it is also concerned with costs.

2 The Marketing Functions in the Organisation

The way in which the marketing function is integrated into the organisation of a business varies greatly. In some trading companies, every Manager is his own Marketing Manager. More typically, a separate management unit is established to manage the marketing function. But still there is room for wide difference. In some companies, line managers retain responsibility for most marketing activities while a separate department is established to manage particular aspects of marketing, such as advertising. In other, market research is organised as a separate activity. In yet others, sales function is separated out.17

In an extreme case, companies engaged in research and development of high technology products the marketing function may be restricted to the formal negotiation and administration of contracts with customers.

The organisational form appropriate for a particular business will depend on many factors. These will include:

1. The knowledge and skill of line managers in marketing
2. The characteristic of the market that the company is serving
3. The nature of the company's products and services
4. The degree of competition in the market
5. The managerial style of the Chief Executive
6. The rate of change in the Market
7. The predictability of market demand
8. The amount and type of information that must pass between producer and consumer
9. The historical development of the company's organisation

As these factors are numerous and inter-related and because they change through time, responsive companies find it necessary to re-assess from time to time, the managerial organisation of their marketing functions.

32. THE BASIC ELEMENTS OF MARKETING

There are three basic elements that make up the marketing function:—

(a) **RECOGNITION**

A marketeer must study and understand the needs of consumers. With this knowledge he can predict the total level of potential demand for the company's products and services. He must also study and understand the role of competitors in meeting that demand. Thus he can define the market opportunities for his company.

---

In addition to a general scanning of the market and the competitive environment, he must recognise profitable market opportunities for the company. In order to do this he needs a deep understanding of his company and its basic economic structure. He must also devise a range of different products and services that will appeal to the different needs of different market segments. He must recognise the different levels of profitability for the company that different segments will provide.

Finally, the marketeer must recognise changes in the needs of consumers so that he can assure a continuing profitable market for the company in the medium and long term.

(b) **STIMULATION**

Having recognised the needs of consumers that will yield profitable revenue, the marketeer must stimulate those consumers to demand his company's products and services. He uses various technics to do this. He may send out or mail-order catalogue to explain his services and illustrate his products or he may send out a team of sales representatives to talk directly with consumers, to explain to them how his products and services in the media of press, posters and television or he may promote his company and its product or services by arranging competitions or special events or by sponsoring artistic or sporting occasions e.g. tennis, squash or golf tournaments. Finally he may stimulate demand for his product or service by ensuring that it is presented to the consumer attractively, in terms of package design or of other point of sale features.

---

19 Economic Structure of Organisation. Refer on P. 50 - 51

The marketeer seldom relies exclusively on one of these technics. His skill lies in selecting the combination of methods that provides the most cost effective way of inducing demand. For these widely different approaches have one thing in common, that they all cost money. The marketeer must constantly be attempting to evaluate their effectiveness in relation to their cost.

(c) SATISFACTION

Having recognised the needs of consumers that will provide profitable market opportunities for the company and having stimulated demand for the company's products and services the marketeer has a final and vital task to perform. He must ensure that the consumer's needs are satisfied.

Firstly, he must ensure that the product is sound and that it meets the specification and level of consumers service that has been promised.

Secondly, he must establish a means of getting the product or service to the customer. He may decide to deal directly with the customer or he may deal through third party i.e., distributors or travel agents. If he decides on the former he will incur the full cost of distribution, if he uses third parties - agents, wholesalers and retailers, he will have to pay them for the service that they provide. In this case too, he loses a measure of control over the process, and he may lose his direct contact with the consumer or client.

Next, if he is wise and thinking of future demand, he will have to provide after sales service to his customers. The level that he must provide depends on the needs and expectation of the customer.
Finally, he must provide his product or service at a price that satisfies the customer. Price decisions thus have as much to do with customer needs and expectations as they do with product costing.

If the customer is not satisfied with the company's product or service, he is unlikely to repeat his demand. It is, therefore important for the marketeer to monitor the level of customer satisfaction. To do that he must recognise the consumer's needs. But that was his starting point. To come full circle like this demonstrates the inter-related nature of all the aspects of marketing. It demonstrates that the needs of the consumer are central to the marketeers world.

4.2. **THE RELATIONSHIP BETWEEN SALES & MARKETING**

In many organisations confusion exists about the terms "sales" and "marketing". Often they are used synonymously. It will be clear however, that marketing is much broader in scope than sales. In fact the sales function is a specific part of the marketing function. There are some important differences between them:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sales is revenue oriental</td>
</tr>
<tr>
<td>2</td>
<td>Sales is concerned with income from customer</td>
</tr>
<tr>
<td>3</td>
<td>Sales tends to have a short-term time horizon</td>
</tr>
<tr>
<td>4</td>
<td>Sales can be separated from the other Managerial functions</td>
</tr>
</tbody>
</table>

---

The forementioned detailed information on Marketing will now guide us to analyse the market forces and marketing mix which would apply to cover the replacement segment of a Car Hire Market.

55. MARKET FORCES

1. The attitudes and habits of Ultimate Consumer/Purchase
   The markeeteer has to study the buying habits and attitudes of the consumers, then base his motivation of purchases accordingly.

2. COMPETITION

   The other forces in the market that the Car Hire organisation have to cope with is "competition". In order that we push out to take advantage of these forces to grow rather than being pushed by them, we have to know and understand enviromental condition in the market. They are:

   (a) Is competition on a Price or Non Price basis?

   (b) What are the choices afforded to consumers:

       (i) In product e.g. Latest makes of cars or old

       (ii) In prices e.g. Normal rate or unlimited mileage rate

       (iii) In service e.g. Drop off charges or one way rental, replacement on breakdown cars provided.

   (c) What is the relation of supply to demand.

   (d) What is your position in the market e.g. size and strength relative to competitors, number of firms and degree of concentration i.e. number of stations in the country.

   (e) What indirect competition and direct competition are you facing e.g. indirect competition could be rail, taxis etc. Direct competition could be car hire organisations that match to your size and strength.

   (f) Competitors plans, what new developments in products, pricing or selling plans are impending?

   (g) What moves will competition likely make to actions taken by your firm e.g. if you decide to increase certain rates above the normal level, would your main competitors make similar move or not.
3 GOVERNMENTAL CONTROLS

It is very vital that before any marketing strategy be adopted
the Market force on Governmental Control be taken into consideration
they are:-

(a) Over product i.e. cars
(b) Over pricing
(c) Over competitive practices. There are parastatal
companies in Kenya who have interests in number of
Car Hire Business, thereby competition could be restricted.
(d) Over advertising and promotion - This control could apply
to international and local participation on promotion.

FLIP CHART PLAN OF MARKET FORCES OF
CAR HIRE ORGANISATION
6 MARKETING MIX

In addition to seeking a winning combination of consumer satisfaction, the central manager must consider how to communicate with the consumer to present an offer. In moving a product or services from the plant to consumer, a variety of activities are undertaken and each of these involves an expense. The marketing mix policy of an organisation guides the selection of these activities and the allocation of marketing funds. The aim, of course is to create a final package of satisfaction that are attractive to the specific groups of car rental customer.

Services cannot be stored, and so they move directly from their creator to the user, components of a marketing mix policy includes.

(a) **PRODUCT OR SERVICE PLANNING**

Determination of service to be sold, qualities, level of service etc. To whom, when, where and in what quantities or volume.

(b) **PRICING**

Determination of level of prices, psychological aspect of price (e.g. odd or even) pricing policy e.g self drive rate, leasing rate, unlimited rates etc.

(c) **CHANNELS OF DISTRIBUTION**

The method of reaching the consumers e.g. direct sale, through commissionable source or sale through agents.

(d) **PERSONAL SELLING**

Determination of burden to be placed on personal selling and methods to be employed choices of sales contact and company representatives. Organisation, relation, training and guidance of sales force.
(e) **ADVERTISING**

Determining the extent of burden to be placed on advertising and the policy to be followed have to reach the consumer or trade, mix of advertising. Determining the effective media to advertise e.g. newspaper, radio, cinema slides, tourist magazines etc.

(f) **QUALITY AND RANGE OF SERVICE TO THE CUSTOMER**

Evaluating the importance of service and devising of procedures to meet customer needs and desires. Determining the cost changes to customer for quality and service.

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D. SERVICE AND CAR CARE CONTROL

Motor Vehicles are the most valuable item of equipment in a Car Hire organisation. It is essential that proper service and car care measures are taken from the moment they are purchased to the time they are disposed. The benefits of doing so are as follows:

(a) It gives or creates a good image or standards in view of the customer service.
(b) Better maintenance and services reduces break downs thus less unsatisfied customers.
(c) With constant service and check-up reduces the maintenance cost by avoiding major repairs.
(d) The cars are in a better shape and condition at the time of disposal therefore fetch good price.

1. DAILY SERVICING

When a car checks in after a rental, it is washed and cleaned thoroughly and passed on to the servicing section for the necessary service requirement. They are as follows:

(a) INTERIOR & CONTROLS

These checks include all the interior controls like ignition and starter switch, accelerator action, gear lever action, handbrake and release, clutch clearance, horn, radio, sunvisors, windscreen, wipers, cigarette lighter, seat belts, heater etc.

(b) EXTERIOR

Here the damage on the body part should be noted and if any arrangement made to book the car for panel beating and respraying. Otherwise the other checks would be: all lights, number plates, bonnet boot and door latches and locks.

23 J. Albert, Car Care Control Department, International Car Hire Organisation (letter) - December 1979
(c) **TYRES**

In Kenya our cars travel on a very rough road and conditions into the National Parks, therefore it is vital that tyres are always in a good condition. Other checks involved would be air pressure, spare tyre and tools.

(d) **UNDER - BONNET CHECK**

This check involves all the mechanical running of the car e.g. motor oil, alternator, radiator, battery, windscreen washer, temperature, oil pressure, engine plugs and tapets etc.

(e) **CLEANINESS**

Here the exterior and interior is checked to determine if it requires replacement e.g. interior carpets or door handles etc.

(f) **OPERATING & PERFORMANCE TEST**

Finally, the car is taken out on a road test to evaluate performance on the engine, transmission, steering and with all this if there is any rattle.

After these necessary checks and repairs are carried out, where required the car is placed on the ready line for rental.

22. **PREVENTIVE MAINTENANCE INSPECTIONS**

Preventive Maintenance Inspection provides a means of the systematic detection and correction of the causes of vehicles problems before they occur. By making necessary adjustments and repairs on regular basis, minor faults are corrected before they develop into major problems.

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24 Internal Memorandum, Director of Maintenance/Control Car Hire Organisation Procedure - January 1980
It varies from company to company on the time the services are carried out, some carry out at first 8,000 Kms and then considered again at 16,000 Kms. Others carry out at 6,000 Kms and 12,000 Kms respectively.

**VEHICLE BREAK-DOWN**

Whenever a break down is reported by a customer, the person receiving should treat with care and urgency as the customer may be extremely inconvienced if a long delay occurs.  

Obtain and record the following information from the client: -

(a) Customers name;  
(b) Telephone number where the customer can be reached;  
(c) Rental Agreement number;  
(d) Type of car and registration number;

Find out what are the customers immediate plans and base all the following decision on the customer's need.

If the repair can be done by a local garage in the place where the incident occurs, ask the customer to have repairs executed, to pay for it and state that cost will be reimbursed against receipt. If a loss of time and other inconviencence is involved for the customer, promise to make adjustments of the rental charges providing that the customer can wait until the car is repaired.

If the car cannot be repaired where the breakdown happened then arrange for a replacement car as quickly as possible. If the replacements car is not delivered to the customer and he comes to the renting station to pick it up, consider to reimburse his transport cost (e.g. taxis etc).

---

25 Internal procedures on Breakdown, Handling - Avis International December 1979
After the final settlement of the break down, the accumulated information may be used to support Warranty Claim against the dealers, especially in cases where one type of defect is observed repeatedly on a certain make of car.

CUSTOMER COMPLAINTS

In Kenya the Car Rental Market is very competitive, therefore, International and Multi-National organisation penetrate through the market with better service, good new cars, thus reducing customer complaints to the minimum. With this the organisations have more demand and build reputation with the business houses and especially the tourist/overseas market.

We have already come a considerable way to eliminate most customer complaints, it is highly unlikely that we will be able to eliminate them all. If complaints are handled in a fair and courteous manner then it is quite possible that the customer may become even more committed to that particular Car Hire organisation.

It is important that the station Manager or Rental Staff is conversant as to how a complaint should be attended. This is analysed below.

A complaint always arises when a customer expresses his dissatisfaction with our services or vehicles. It may concern a reservation failure. At this juncture it develops into an opportunity to help our customer, show concern and prove that this company have a proper back up service.

COMPLAINT HANDLING

(a) Listen to the client and do not interrupt until he has made his complaint and avoid developing an argument.
(b) Say Sorry, an apology is what he really wants.
(c) Note down the facts and relevant details from the customer.
(d) Take action by changing his car or help him over this complaint. If need arises adjust the charges on his bill.
(e) Never blame another renting station for the complaint or never admit you have heard this complaint before.
CONTROLLING - FINANCE & ACCOUNTING

In Kenya, standards of maintaining Accounting set of books are high, majority of the International and Multi-National companies have installed computer, others and local companies either use computer bureau services or maintain their accounts manually. The monthly construction of Balance Sheet and Income Statement (P&L) is very vital for Management to assess the results, carry out necessary comparison with the budget, actual prior year and take necessary notification actions on unfavourable category of accounts.

This format is generally as laid out as below:

<table>
<thead>
<tr>
<th>MONTHLY INCOME STATEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>MONTH ........................</td>
</tr>
<tr>
<td>THIS PERIOD</td>
</tr>
<tr>
<td>ACCOUNT DESCRIPTION</td>
</tr>
<tr>
<td>FISCAL YEAR TO DATE</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actual Pr.Yr</th>
<th>Budget % Var</th>
<th>Actual Pr.Yr</th>
<th>Budget % Var</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000.00</td>
<td>800.00</td>
<td>1100.00</td>
<td>16000/-</td>
</tr>
<tr>
<td>9% Repairs</td>
<td>Outside</td>
<td>6.25%</td>
<td></td>
</tr>
</tbody>
</table>

In the above illustration the accounting set up is in such a manner that income statements can be reviewed by calling monthly Manager meetings and each category of expense can be analysed, compared and actioned. The comparison in "this period" is based on that particular month and actual from that same month prior year. It also gives the percentage variance to budget figure. The comparison in "Fiscal Year To Date" includes to date actual Budget and their percentage variance. It also includes prior year to date figures. This accounting format is a very valuable tool for Managers to determine the bad and good operating accounts thereby taking any rectifying action.

Letter by F. Deen - Data Centre, Computer Bureau Monthly Income statements - April 1979
2 BUDGETING

A budget can be described as an estimate of future results for predetermined length of time and expressed in Accounting term. Budgeting is commonly used in the Income statement and very rarely for the Balance Sheet in the local companies. All companies, whether large or small, have to carry out periodical budgeting for their future activities so that they are prepared for the future. For accounting and budgeting purposes Car Hire operation can be divided in two categories.

(a) REVENUE

When determining the level of revenue particular attention is to be given to sales estimations and prediction. After having determined the fleet (as discussed in Fleet Forecast earlier). Then the fleet per month is allotted revenue per unit comparing the previous years trend and also looking at the future demand. In this we have to consider some important factors like:-

(a) Reservations Received
(b) Agreements with Tour Operators
(c) Survey of Rentals
(d) Information from districts about customer requirement

(b) EXPENSES

The Expenses consist of two categories:-

(i) VARIABLE EXPENSES
These expenses vary in direct relation to either the fleet or revenue earned. For example, operation and maintenance expense, damage expense, commission, bad debts etc.

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(ii) **FIXED EXPENSES**

These are expenses of a fixed nature theoretically not subject to change with the volume of business but are reviewed once or twice a year. For example, Administration and General Expenses i.e. telephones, printing facility expenses i.e. Rent, Rates etc. *REFER FIG NO. 6.*

**PROFIT & LOSS (INCOME STATEMENT)**

By Budgeting, we have set the Company’s objectives and the Management must see that these objectives are being met. We do this by the monthly profit and loss statement, which in addition to providing the actual month and year to date operating results, also relates these results to Budget in each income and expense area. When assessing the monthly statements management must bear in mind that to achieve budget is not enough, maximum profitability allied to a first class service must be the ultimate aim. Each month’s statement must be analysed in depth for it is only on such an analysis that immediate planning can be based.

3 **ANALYSIS OF FINANCIAL RELATIONSHIP**

A Balance Sheet and an Income Statement are of a little use to a business manager, until the information they contain is interpreted and analyzed. This can be done through Financial ratios and are classified as either test of liquidity, tests of profitability or tests of financial risks. The ratios require information from both Balance Sheet and Income statement.

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FLIP CHART PLAN

Diagram showing the relationship between revenue, total cost, variable costs, fixed cost, and volume. The graph indicates the break-even point where revenue equals total cost.
It is helpful to bear in mind that each ratio has a particular purpose and that Manager should determine before beginning calculations exactly what he wishes to know and which ratio will best provide that information.

TESTS OF LIQUIDITY

(a) The Current Ratio OR Net Working Capital:
    Which is the ratio of current assets to current liabilities
    is probably the most common test of liquidity.

\[
\frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

Since the funds to be used for paying current liabilities must come from the liquidation of current assets the current ratio is important to both management and short term creditors. Generally, companies that have a high proportion of current assets in inventory and sell products on credit should have a higher current ratio than companies that have a small inventory and easily collectable accounts receivable.

(b) Average Accounts Receivable Collection Period Ratio:
    This is the ratio of accounts receivable to credit sales. It
    provides an indication of the average age of accounts receivable.
    By dividing accounts receivable by annual sales, the average
    collection period is obtained.

\[
\frac{\text{Accounts Receivable}}{\text{Sales}}
\]

The average collection period can be related to the terms of credit being offered by the company to determine the effectiveness of the company's credit management.
(c) **Inventory Turnover Ratio:**
This is determined by dividing the net inventory at the end of the period into the cost of sales.

\[
\frac{\text{Cost of Sales}}{\text{Inventory}}
\]

Inventory turnover ratio is a very important factor in business. The higher the rate of turnover the larger the volume of business that can be conducted with a given investment in inventory. 30

(d) **Total Debt To Owners Equity Ratio:**
This ratio expresses the relationship between capital provided by creditors and capital provided by the owners. It gives an indication of the degree of financial risk.

\[
\frac{\text{Total Debt}}{\text{Owners Equity}}
\]

**TESTS OF PROFITABILITY**

(a) **The Gross Profit Ratio:**
This is ratio of gross profit to net sales.

\[
\frac{\text{Gross Profit}}{\text{Net Sales}} \times 100\%
\]

The percentage indicates the average markup on all goods sold. The markups for different product lines are bound to very significantly from the average.

30 Ibid P. 625
(b) **The Return on Sales:**

This is the ratio of the net profit after taxes to net sales, provides an indication of the overall profitability of the company.

\[
\frac{\text{Net Income After Taxes}}{\text{Net Sales}} \times 100\%
\]

(c) **The Return on Owner's Equity Ratio:**

This ratio gives an indication of how efficiently the funds of the owners are utilized. It is determined by dividing the owner's equity into net income after taxes.

\[
\frac{\text{Net Income After Taxes}}{\text{Owners Equity}} \times 100\%
\]

The value of using ratios on a continuing basis for control purposes cannot be overstated to a business Manager. Ratios provide means for a Manager to assess performance and they direct his attention to areas where corrective action may be required. At the same time, their everyday use in a company does much to foster cost and profit consciousness.

4 **WORKING CAPITAL REQUIREMENT**

In Kenya, the Minister for Finance, Mr. Mwai Kibaki, laid down measures on tightening imports on 23rd December, 1978. This measure included passenger cars that are imported would (a) be restricted in number by allowing quotas (b) the dealer will have to pay 100% deposit on the value of car to Central Bank at the time of ordering.31

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31 Daily Standard Newspaper. Mr. M. Kibaki Axed On Imports December 23rd 1979
This burden was eventually passed to the consumer by the dealer, and the most effected were the Car Hire organisations in Kenya. Therefore, in order to have enough working capital a Manager should be in a position to control and derive liquid cash from different sources.

(a) ACCOUNTS RECEIVABLE

When a business extends credit to its customer, longer than thirty (30) days it is blocking its cash resources which could be utilised if collected efficiently. It was this fact that prompted the controller of large corporation to say "the way we keep down our investments in receivables is to hound our credit department which in turn hounds our customers who have overdue accounts". 31/A

(b) PAYABLES AND LOANS AS SOURCES OF FUNDS

Off setting the Working Capital required to maintain a company's cash funds, accounts receivable, inventories, accounts payable and loans. When an item is bought on credit, the supplier temporarily finances the buyer's operation, therefore the longer the credit terms the less of the buyer's own capital is tied up.

Other sources of working capital are loans from banks or other financial institutions. It should be recognised, however, that loans cost money in the form of interest. The profit from extended operations resulting from a loan must be measured against the cost of the loan. Furthermore, most banks require that working capital loans be limited to short-term requirements source of funds. An exception arises in those limited cases where special arrangements for a "revolving" credit are made. Under such arrangements a borrowing "ceiling" is established and currently it is 40% of the capital equity, funds upto that limit are available.

31/A Personal Interview, Controller of Car Hire Corporation on Cash, Receivables, Investment - February 1980
The security is the motor vehicles purchased. Any proceeds from the sale of such assets are paid back into the funds and are available for re-borrowing as required.

(c) THE MANAGEMENT FACTOR

Most companies are troubled more by lack than an excess of working capital, therefore an efficient management can do much to reduce its need for funds by increasing the inventory turnover, keeping outstanding receivables at a low level through effective credit and collection handling and avoid contractual obligations that will drain on cash in hard times (i.e. long term leases, purchase of assets etc). Practically every activity of business has an effect on a company's current funds. A major concern of every responsible business Manager, therefore, is plotting day by day to find means of better planning, controlling and conserving his working capital funds.

5 ECONOMIC STRUCTURE OF A BUSINESS

Another way of tackling the performance of a business is to look at its economic structure analysis, breakdown the financial objectives i.e. profit, return on investment etc. into its elements of revenues, costs, contribution and assets as illustrated in Figure 3.

Further identify the main factors which influence the economic performance of the business, the business manager would then focus on these "key economic factors" for planning, control and performance improvement. 32

ECONOMIC STRUCTURE OF A BUSINESS

CUSTOMERS

ACTIVITY 1

ACTIVITY 2

ACTIVITY 3

REVENUES

MANAGEMENT

THE COMPANY

COLLECTS

INCURS

EXPENSES AND COSTS

LABOUR

MATERIALS

CASH

LAND AND BUILDINGS

SUPPLIERS AND INVESTORS

PROFIT / LOSS

RETURN ON INVESTMENT

FIGURE 7
TRAINING AND LABOUR RELATION

Training is a process of changing people's knowledge, skills, attitudes or behaviour through instruction, demonstration, education or other planned technics. There are numerous types of training that are common with the Car Hire organisation. They are:

(a) ON THE JOB TRAINING

As the name states "on the job training" here every new employee is recruited for a particular class or grade and his immediate Supervisor trains him on it. A programme of three months is usually laid out and necessary progress reports are made during this period. Car rental organisation has a very different operation procedures therefore, this is very common training system.

(b) IN-HOUSE TRAINING

A department of training is responsible for preparing and conducting, company's training courses and caters from Mid-Management course for Manager to Sales Agents course at the counter.

(c) INDUCTION TRAINING

This is an introductory information given to all new employees about the organisation, its departmental facilities and other business operation requirements. In case of small organisations

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33 On the Job Training - where new employee is assigned on a job and trained on this specific job. Pigors & Myres "Personnel Management". Chapter 16, P 401 - 405 1965
an individual programme should be drawn to enable to familiarize himself with the activities of the organisation.

1 RECRUITMENT AND SALARY ADMINISTRATION

Our employees are one of the largest costs we have in terms of resources. We need to take care in recruiting the right people and to be sure we are rewarding them well.

(a) In order to get a selection pool, we have to make our invite in one or all of the following media:

   (a) Newspaper
   (b) Bulletins
   (c) Radio etc

(b) Call all the applicants possessing the qualification required and interview them. Make a short list who would make the grade.

(c) Carry out the selection test and check with their references for past behaviour both personal life and in companies.

(d) Confirm interest on the second short listing and make a job offer.

(e) Carry out the plan induction process with the successful candidate.

LABOUR RELATION

Labour and Industrial relations play a vital part in the establishment and maintenance of industrial democracy and economic stability. The problem of industrial and labour relation is in extricably interlinked with freedom of association, collective bargaining, conciliation and arbitration. Industrial democracy cannot succeed unless all concerned - workers represented by unions, employers represented by employers Federation Government and general public - fully realise their importance and their place in the national life.

In order that there is labour harmony the management of an organisation bargain collectively through the respective unions to set out the working conditions for the workers.

Judge Saeed Cockar, President of the Industrial Court writes about the importance of labour harmony for economic development.

"Labour or Industrial harmony is an important subject for it concerns not only people at all levels of industry but the general public as well. Labour relations are the key to national prosperity in a period when a single small strike may dislocate industry over a vast area. To attain economic development smooth running of industries which are the back bone of national economies, industrial peace has to be maintained and understanding common sense and good human relations are the key to good industrial relations."

35 Donald J. Murch (Editor) "East African Law Journal" 1964 Volume III
3 In Kenya collective agreement is reached by Car Hire organisations and Transport and Allied Workers Union representing the workers. Some of the important categories negotiated in the agreement on wages and other conditions of service are briefly detail below:

(a) MINIMUM CONSOLIDATED RATES OF PAY

Here salaries are established on various grades allotted to different job description of all types of work, e.g. from a cleaner to a supervisor. This also includes the general increase agreed for the two year or term of contract.

(b) OTHER TERMS OF SERVICE

(1) Hours of work
(2) Overtime
(3) Annual leave
(4) Leave travelling allowance/safari allowance
(5) Compassionate/Sick/Maternity leave
(6) Medical treatment
(7) Permanent Transfer/Acting allowance
(8) Seasonal employment and their term
(9) Uniforms
(10) Promotion and Probationary period
(11) Discipline and discharge procedure
(12) Redundancy and reverence pay.

These terms and conditions of work vary from company to company but the major items are as listed above.

It depends a lot on what the Management of the organisation have to offer and whether this is acceptable by the Union and eventually both parties try and compromise. If this is not reached then the matter is passed to the reconciliation of Labour Office, and finally to Industrial Court.
CONCLUSION

Management of Car Hire organisations in Kenya are facing sizeable opposition in this present economic state. Tourism is being effected due to political unrest in the neighboring countries, this is effecting the American market who are very conscious of their safety. Economically, there are import restrictions which do have a strong impact on obtaining new cars, thereby hindering expansion and incurring additional expenses in term of interest cost to finance the requirement of deposits. A car rental market is very seasonal and if the cars are not available from the dealer when the season requires them, again shortfall in revenue generated during the period.

These shortcomings can be best handled by the management of Car Hire organisation with the tools available as described in my main structure of managing.

(a) Reservations
(b) Fleet
(c) Market
(d) Service and Car care
(e) Accounting and Finance
(f) Labour

as effectively and efficiently as possible in order to maximise profits and remain in business. It has often been suggested that the true test of good management is its ability to organise and utilize available resources to achieve and maintain an effective level of operation.
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