Case 24

Enterprise Rent-a-Car

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When Jack Taylor founded the Executive Leasing Company in St. Louis in 1957, he based his business model on a very simple concept: "Take care of your customers and employees *first,* and growth and profits will follow."[1] This simple philosophy was imprinted across the company and became the foundation for the company's strategic operations. Over the next 50 years, the company, renamed Enterprise Rent-a-Car, grew to become the largest and most prosperous auto rental company in America, achieving approximately $9 billion from its multinational operations. In 2007, Enterprise was the leading auto rental company in North America, with more than 6,900 local market and on-airport rental locations and more than 878,000 rental and fleet service vehicles. The company operated through an extensive network of local neighborhood offices, each powered by small, highly entrepreneurial teams that had a high level of autonomy. Enterprise's network consisted of offices in the United States, Canada, the United Kingdom, Ireland, and Germany, where they handled tens of millions of transactions annually. Eventually the company had achieved a domestic saturation rate in the United States that put an Enterprise location within 15 miles of 90 percent of the U.S. population.

In its drive to the top of the auto rental industry, Enterprise remained true to Taylor's founding principles. The company received numerous awards for customer satisfaction and for being one of the best employers. As a tribute to the company's customer service, in November 2006 J. D. Power named Enterprise the auto rental company with the highest customer satisfaction, a distinction the company had achieved for seven of the previous eight years. In February 2007, Media Metrix ranked Enterprise as the leading auto rental company in its 2006 Hospitality Awards, a distinction it had achieved 17 out of a total 18 times. The company was similarly recognized for the way it treated its employees—being recognized in 2006 by *BusinessWeek* as the fifth best company in which to start a career, and in 2003, 2004, and 2006 as one of the 50 best employers in Canada. The Princeton Review additionally rated Enterprise as one of the best entry-level employers for college graduates and as the largest college recruiter in the United States.

Despite the company's outstanding performance and top rankings, Enterprise's chairman and chief executive officer, Andrew Taylor, remained "constructively paranoid" about his rivals. He was committed to continued growth to remain on top of the auto rental industry.[2] In early 2007, several developments in the auto rental industry indicated that Taylor's concerns for the activities of his rivals were justified. These developments included a possible merger between Dollar Thrifty Automotive Group (owner of Dollar and Thrifty auto rental companies) and Vanguard Car Rental (owner of National and

Alamo), as well as direct attacks on Enterprise's off-airport rental markets and insurance company clients by Hertz, the number two auto rental company in the industry.

U.S. AUTOMOBILE RENTAL INDUSTRY

The inception of the auto rental industry was widely attributed to two individuals. The first was Joe Saunders, who in 1916 in Omaha, Nebraska, began renting a secondhand Model-T for 10 cents a mile. His first customer was purported to have been a traveling salesman who had a date with a local girl and was in need of transportation. By 1925, Saunders had purchased over $1 million worth of automobiles from Chrysler and had operations in 21 states. Unfortunately, Saunders went bankrupt during the Great Depression in the early 1930s.[3] A second pioneer in the industry was Walter L. Jacobs, who in 1918 started a small company in Chicago that bought, repaired, and rented Model T automobiles. Within five years, the company was generating annual revenues of approximately $1 million; it was purchased by John Hertz, then president of Yellow Cab and Yellow Truck and Coach Manufacturing Company. Hertz renamed the company Hertz Drive-Ur-Self System and sold it to General Motors in 1926.

In 2006, total industry revenues were approximately $20 billion (Exhibit 1), with the top six companies having combined market shares of over 90 percent.

In 1932, the first airport auto rental facility was opened at Chicago's Midway Airport by Hertz, which also established the first fly/drive program later that year.[4] World War II led to significant restrictions on the automotive rental industry and caused the market to stagnate, but following the war the industry grew rapidly due to expansion in the airline industry. Auto rental companies responded to this opportunity by building locations in airports.[5] While most auto rental companies also maintained off-airport locations, it would not be until the late 1990s that off-airport locations became a significant force in the industry due to the efforts of Enterprise Rent-a-Car. In 1994, the off-airport segment represented only $2.5 billion of the $10.7 billion industry; however, by February 2006, off-airport revenue accounted for a greater proportion of the industry's total $20.08 billion revenue than did airport locations. The market shares of the leading companies in the on-airport and off-airport segments in 2005 are shown in Exhibits 2 and 3.

In addition to the growth in the off-airport segment, the industry was also seeing significant international growth as large U.S. auto rental companies sought to build global brands. In 2005, the total global market was estimated to be close to $30 billion. The United States represented 50.20 percent of the total global market, followed by Europe (31.30 percent) and Asia-Pacific (8.30 percent). Analysts predicted that from 2005 to 2010, growth in the U.S. market would slow from 7.2 percent in 2005 to 5.6 percent in 2010, with a total compound annual growth rate over this time of 6.3 percent. However, the market outside the United States was expected to

Exhibit 1 **U.S. Automobile Rental Revenues by Company, 2000–2006 ($ in billions)**

	2006	2005	2004	2003	2002	2001	2000
Avis	$ 2.75	$ 2.45	$ 2.28	$ 2.14	$ 2.25	$ 2.38	$ 2.40
Budget	1.43	1.22	1.13	0.94	1.00	1.70	1.80
Dollar*	1.53	1.39	1.01	0.92	0.91	0.89	0.94
Enterprise	7.00	6.40	5.83	5.49	5.25	5.10	4.50
Hertz	3.90	3.87	3.50	3.11	3.05	2.90	3.98
Vanguard	2.14	1.93	1.84	1.80	2.00	NA	NA
Other	1.33	1.65	2.05	2.05	1.97	5.23	5.78
Total	$20.08	$18.91	$17.64	$16.45	$16.43	$18.20	$19.40

* Data for 2005 and 2006 represent the combined operations of Dollar and Thrifty, which was acquired by Dollar.

Source: "United States Car Rental Industry Revenues for 2005." *Auto Rental News,* February 28, 2005, www.fleet central.com/arn/t_inside.cfm?action=statistics.

Exhibit 2 **United States On-Airport Segment Market Share as of October 31, 2006**

	2006*	2005	2004	2003	2002
Hertz	28.4%	29.2%	29.6%	29.0%	29.2%
ABG Brands					
Avis	19.9	20.2%	20.2%	21.2%	22.3%
Budget	10.4	10.5	10.2	10.4	10.8
Vanguard (National/Alamo brands)	19.7	19.4	19.8	20.8	21.8
DTG Brands					
Dollar	7.2	7.1	7.7	7.4	7.2
Thrifty	4.4	4.3	4.5	4.4	3.2
Enterprise	7.6	7.0	6.0	5.0	3.9
Other	2.4	2.3	2.0	1.8	1.6

* Estimated based on the first ten months of 2006

Source: Hertz annual report 2006, https://images.hertz.com/pdfs/HTZ_2006_annual_report.pdf (accessed April 28, 2007).

grow faster over this time frame and through 2020, with especially rapid growth forecast in Asia.

In the early 1970s, the fuel crisis and growing government regulations forced a number of auto rental companies to change the mix of cars they offered on their lots to include more fuel-efficient models. These trends, coupled with a decrease in the fleet discounts offered by automakers and rising auto prices, forced auto rental companies to shift their business models and to begin selling their used cars directly to the public. By 1980, Hertz was one of the largest used auto dealers in the United States. The success of Hertz in this business led companies such as Avis to move away from leasing cars from automobile manufacturers to purchasing the vehicles outright so that they could be sold to the public as used cars. In 2007, the sale of used vehicles represented a significant portion of most automotive rental company revenues.

Selling used cars directly to the public was viewed as a more profitable way of managing fleet sizes, adding flexibility to operations. Some of the auto rental companies had extensive networks of sales outlets; Enterprise had 170 locations throughout the United States, allowing for significant market penetration in the sale of its auto rentals to the public. Over the last two decades, to further diversify their revenue streams, auto rental companies had also sought to expand their brand portfolios. An example of this was Budget Rental Group, which owned Budget, Ryder, and a variety of other transportation-related companies. Broader brand portfolios allowed the rental companies to share fleets, integrate systems, and smooth out their business cycles. The trend toward broader portfolios had led to further industry consolidation, as evidenced by the February 2007 announcement that the Dollar Thrifty Automotive group—which was formed by a 2002 consolidation of the Dollar and Thrifty Car rental brands, both owned by Thrifty Inc.—was in merger talks with Vanguard.

Exhibit 3 **Estimated On-Airport and Off-Airport Market Shares, 2005**

(a) On-Airport Market Segment

Alamo	5%
Avis	21
Budget	11
Dollar	7
Enterprise	7
Hertz	28
National	15
Thrifty	4
Other	2

(b) Off-Airport Market Segment

Avis/Budget	7%
Enterprise	65
Hertz	9
Others	19

Source: Avis Budget Group Presentation to Investors, November 2006, http://library.corporate-ir.net/library/11/119/119532/items/221139/Investorupdate1106.pdf.

From the earliest days of the auto rental industry, auto rental company purchases had been an important revenue stream for automakers. In some years, fleet purchases from auto rental companies accounted for as much as 10 percent of the total auto sales of the Big Three U.S. automakers. The relationship between auto rental companies and automakers had always been close, but in 1987 Ford Motor Company took the relationship to the next level when it partnered with the management of Hertz to form a company that purchased Hertz from United Airlines. Similarly, in 1988, Ford purchased a 45 percent share of National Rent-a-Car and in 1989 purchased a 25 percent share of Avis. Automobile companies justified these investments because auto rental companies were their largest customers. They also viewed auto rental companies as an important marketing tool, because they allowed automakers to expose potential customers to new models and to get feedback on auto design and quality. In return for these benefits, auto companies gave rental firms favorable fleet pricing similar to volume discounts despite very thin profit margins for the automakers. Additionally, the automakers would sometimes guarantee to repurchase the cars from the rental firms. While the auto companies benefited from this ownership, it was not as clear that the rental companies were benefiting since the auto companies would often put their strategic needs—such as smoothing out the auto sales cycle—ahead of the operational needs of the auto rental firms.

In the early 2000s, many of the auto rental companies were divested by the automakers, allowing the auto rental companies to focus on profitability and enhancing internal operations and profitability. This split had allowed auto rental companies to expand their rental fleets to include autos from a variety of domestic and foreign manufacturers. However, the fleet discounts offered by automakers were still an important element of the business models of many major rental companies. In late 2006 and early 2007, the domestic automakers announced that they would be scaling back the low-margin fleet sales to rental auto companies in an effort to improve their profit margins.

Auto rental companies traditionally had not focused on technological innovations. An innovative change started in 1966 when National Car Rental brought computers into its daily reservation operations by introducing its Telemax computer system into its regional offices. However, it was not until the late 1980s that auto rental companies began to increasingly leverage technology. In the mid-1990s, technology and the Internet were becoming increasingly important in the auto rental industry, as they were in most other industries as well. By 2007, successful auto rental companies were leveraging technology throughout their operations to help reduce costs and promote operational efficiency through programs such as automated auto return programs and sophisticated inventory management, as well as to enhance the rental experience, through rental offerings such as GPS and an auto wireless Internet access, and to promote customer loyalty. Recognizing the need to further improve customer service, many auto rental firms were also investing in customer relationship management (CRM) software, which allowed companies to gather and analyze data about customers' rental habits and experiences. However, some industry experts believed that these systems were not yet sufficiently developed and would benefit from additional attention by many of the auto rental firms.

Technology was also important in the reservation process, with the most successful automobile rental companies having Web sites that were ranked highly in terms of customer support, competitive prices, and easy-to-use rental search/reservation processes. In a 2006 Keynote survey of 2,000 online customers, Travelocity was ranked as the best overall auto rental Web site, but the Budget, Enterprise, and Avis sites were rated highest in terms of satisfaction with the reservation process. In response to the popularity of travel consolidation Web sites such as Travelocity and customer demands for increased Web access to auto rental information, auto rental companies were forming preferred partnerships with some of the travel aggregator Web sites. The alliance between Hertz and Expedia.com, for example, allowed Hertz preferential placement on Expedia's Web site in return for making the company's lowest rental rates available only to Expedia clients.

As technology became an increasingly important factor in customers' automobile rental decisions—with sites such as Orbitz, for example, allowing customers to easily see competing quotes—auto rental companies had increasingly invested in customer service to attract and retain their best customers. One tool was the frequent-renter (customer continuity) program. In 1987, National Car Rental introduced its Emerald Club as the first comprehensive frequent-renter program. By 2007, every major auto rental company had a frequent-renter program that offered perks such as free upgrades, free rental days, express pickup and return, and choice of car. These frequent renter programs were especially important to business customers who placed a premium on their time and who rented more often than leisure renters. The goal of these programs was to increase customer usage through penetration of the existing market.

ENTERPRISE RENT-A-CAR

Back in 1957, Jack Taylor did not aspire to build the largest automobile rental company in the United States. His original goals for the company were much more humble: "I never thought," he said, "it would be more than a small to medium-sized business. I knew I wanted to live reasonably comfortably and to get a couple of new autos every two or three years and I thought that if I was really successful, I would have maybe a condominium in Florida and a reasonably nice house in St. Louis."[6] This vision was reflected in Taylor's early strategic decisions for his company. For example, the original location for his auto leasing company was the basement of a Cadillac dealership. While this decision was made for practical reasons at the time, it ended up having a significant impact on the company's long-term strategy.

In expanding the leasing business, Enterprise stayed with its core strategy and located offices in downtown locations, a pattern that facilitated the company's focus on off-airport rentals and simplified the overall business model. In 1962, Enterprise entered the daily rental market in response to inquiries from its leasing customers who asked about renting autos when their leased autos were in the shop. Seeing an opportunity, Enterprise expanded into the daily rental market and also began selling used autos. This strategic position served as the company's fundamental business model and is still reflected in its current operations.

The company's management philosophy of encouraging an entrepreneurial spirit among its employees had also been in place since its early operations. When Enterprise decided to expand its rental business in downtown St. Louis, the company's president, Don Ross, was visiting office buildings to identify clients who might need to rent autos. By chance, a secretary in one of the buildings mentioned that there was going to be a meeting of insurance adjustors the next day. Ross stood outside the meeting and handed out coffee, Danish, and business cards. This proactive approach secured Enterprise's first insurer as a customer, and insurance companies have been the company's single largest customer segment throughout the company's history.

Enterprise did not simply encourage an entrepreneurial attitude among its employees; it also supported corporate innovation as it constantly sought to identify the best practices originating anywhere in the company and then to transfer this knowledge throughout the organization. For example, Enterprise's famous slogan "We'll pick you up" originated with an Orlando branch manager who was looking for a way to differentiate his operations. The idea, consistent with Enterprise's focus on customer service, was so successful that the company made it a cornerstone of its operations.

Although Enterprise continued to concentrate on customer service and maintained a focus on its off-airport rental operations, the company's business model had not stagnated, as shown in Exhibit 4. In 1993, Enterprise expanded internationally by opening its first office in Canada; by 1995, it had made its move into the on-airport segment. By 2007, Enterprise had 6,000 offices in the United States and more than 900 in Canada, the United Kingdom, Germany, and Ireland with over 225 airport locations. These airport locations accounted for more than 7 percent of the total on-airport market.

Additionally, Enterprise Fleet Management, one of the nation's leading fleet management companies, operated one of the nation's largest service departments. Located in St. Louis, the service department consisted of more than 40 Automotive Service Excellence (ASE) certified technicians. Enterprise Fleet Management had the largest share of the mid-sized market—business fleets of 15–125 vehicles—in 2007. Annually, the firm carefully evaluated new vehicle models coming out of Detroit, Tokyo, and Stuttgart and then provided guidance and additional products for businesses to manage their fleets for the highest productivity level at the lowest cost. Enterprise also offered financial consulting to help customers improve cash flow, lower costs, and expand credit lines. As such, Enterprise handled licensing and taxes following acquisition and delivery. It

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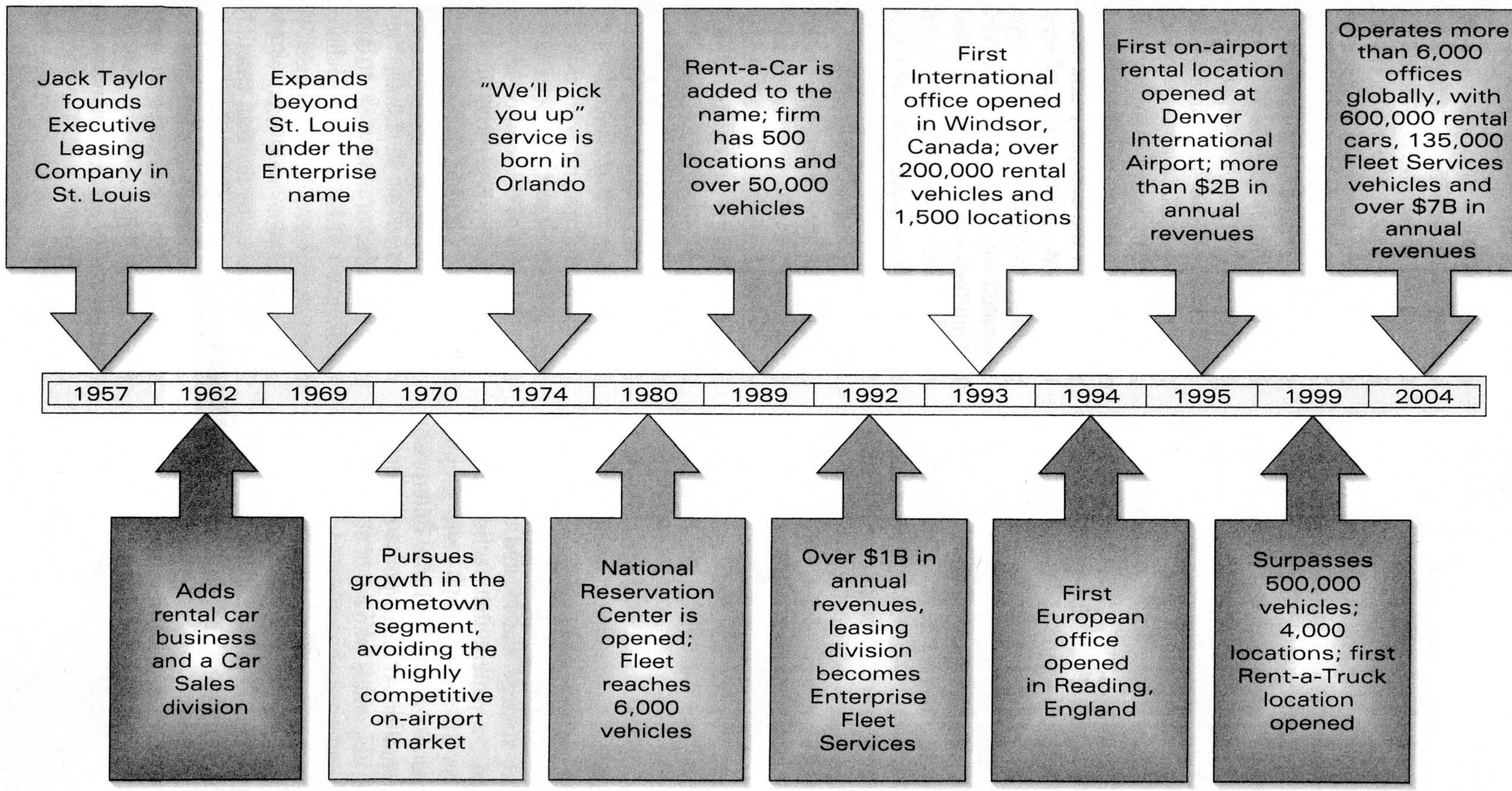
Exhibit 4 **Enterprise Rent-a-Car Milestones**



Source: www.aboutus.enterprise.com (accessed March 3, 2007).

could tailor risk management and maintenance-management products, assist in vehicle disposal, and provide fuel-card programs and 24-hour roadside assistance to its fleet clients.[7]

Enterprise's Businesses Segments

Enterprise was organized into six primary market segments: the off-airport market, the on-airport market, after-market used auto sales, California Vanpool Services, Rent-a-Truck, and International Operations. Enterprise generated most of its revenues from its non-airport operations and received most of its business from downtown and suburban locations. Over the last two decades, the company consistently achieved revenue growth across all business segments, with double-digit growth in the on-airport market over the last six years. Industry analysts largely attributed this success to Enterprise's service-focused business practices, including picking customers up and focusing marketing efforts on repair shops, insurance companies, and policyholders whose cars have been damaged or stolen.[8] While the company catered to a large variety of clients, its most vital customers were auto insurance companies whose policies included coverage to defray the cost of an auto rental if an accident put a policyholder's vehicle in a repair shop.[9]

Off-Airport Market Renting at neighborhood locations was a trend pioneered by Enterprise, which started out renting replacement vehicles to families when their automobiles were in the repair shop. In early 2007, more than half of all vehicle rentals in almost any given state or community were made by local residents who needed temporary replacement cars or vehicles for special occasions. In 2005, Enterprise controlled nearly 55 percent of the off-airport auto rental leisure market, operating more than four times as many local branches in the United States as its largest competitor and more than all of its national competitors combined. Ninety-five percent of Enterprise's business took place in the home city, primarily serving leisure travelers and value-minded business travelers who wanted exceptional customer service coupled with a great price. The strategic choice to focus on this segment was based on Enterprise's desire to avoid the concession fees and extended staffing requirements of airport locations and to develop lean operations that would enable the company to offer competitive prices in all of its markets, although it was not always the low-price leader. In 2004, for the first time more revenue was generated in the auto rental industry by neighborhood-based locations than by airport locations, with home-city rentals accounting for $9.5 billion (roughly 54 percent of the total auto rental market).[10] The growth in the home-city business was partly driven by Enterprise's strategy to develop this market.

On-Airport Market Enterprise's original strategy was to operate solely in the off-airport market. However, in 1995 the company entered the airport market at the urging of customers who demanded easier access to the Enterprise brand and customer service away from home. The first location opened at Denver International Airport, and the firm now had 230 onsite airport locations throughout the United States, plus locations in Canada, the United Kingdom, Germany, and Ireland. Despite intense competition and flat industry growth in the overall airport auto rental segment, Enterprise had evolved into the fastest-growing auto rental company in this segment, with a 20 percent annual growth rate since 1999. Enterprise's market share in the on-airport market had almost quadrupled over the past five years, making the company the fifth largest of eight major players in this segment, which was led by rival Hertz. In building this market, Enterprise had continued to focus on service and to offer prices at airports that tended to be 20 percent below the industry average.

In focusing on the on-airport market, one challenge Enterprise faced was that the on-airport customers, many of whom were businesspeople, often viewed customer service differently from off-airport customers. One complaint among on-airport business travelers was that while Enterprise's friendly customer service was nice, they would rather focus on the transaction and get out the door faster than spend time with pleasantries.

After-Market In a move away from auto rental industry tradition, Enterprise decided to sell its cars itself rather than use reverse logistics to move them back to the auto manufacturer.[11] Enterprise Used Car Sales began in 1962, when Jack Taylor established a haggle-free buying policy—customers got a fair price that was clearly posted on every vehicle without having to negotiate. All vehicles sold were below the Kelley Blue Book suggested retail value. Enterprise

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developed a second policy—worry-free ownership. Each Enterprise vehicle passed a 109-point inspection conducted by an ASE-certified technician and came with a seven-day repurchase agreement. During this time, customers could return the vehicle for any reason, no questions asked. Enterprise also offered buyers a 12-month/12,000-mile limited power train warranty and one year of roadside assistance.

Enterprise's climb had made it the largest buyer of cars in the world (in fiscal year 2006, the company purchased more than 800,000 vehicles), giving the company strong buying power over suppliers. Enterprise Used Car Sales was one of the largest sellers of certified used vehicles in the United States. During fiscal 2005, Enterprise sold around 775,000 cars through its referral auto sales division, which operated more than 175 auto sales locations across the United States. Enterprise offered customers one of the industry's most diverse, continually revolving inventories and had been awarded a 97 percent customer satisfaction rating two years in a row. The division created value-added partnerships with national and local financial institutions, such as credit unions, that provided members with easy access to high-quality used vehicles.

California Vanpool Services Founded in 1994, Enterprise Rideshare was headquartered in Orange County, California, and specialized in providing vanpool and carpool commuter services to individuals and companies throughout Northern and Southern California. In 2007, Enterprise operated over 700 vehicles and transported more than 7,000 commuters daily. Enterprise's pricing varied according to the size of the van, the round-trip distance, and the type of equipment in the van. The average cost per rider was $75–$125/month. Enterprise's California Vanpool Services competed with Midway Ride Share, which operated in several metropolitan areas including Houston, San Francisco, Los Angeles, Chicago, Seattle, Las Vegas, New York City, Orlando, Atlanta, and Washington, D.C.

Rent-a-Truck Enterprise Rent-a-Truck was Enterprise's newest division. Opened in 1999, the division served businesses with replacement or supplemental transportation needs. As of 2006, Enterprise Rent-a-Truck had 105 locations throughout 23 states. Trucks were available for daily, weekly, or monthly rentals and included three-quarter- to one-ton pickups, cargo vans, box trucks, and stake bed trucks, all specifically equipped for commercial use. Similar to the consumer auto rental business, customer service was top priority and the company offered consolidated and customized billing, special delivery, and 24-hour roadside assistance.

International Operations The first Enterprise office outside the United States opened in Windsor, Canada, in 1993, as seen in Exhibit 5. In 2007, Enterprise had more than 900 international branches with more than 7,000 employees. In 2006, Enterprise generated a record $819 million in revenue outside the United States, representing a 13 percent increase in its international business. Each international office operated with the same commitment to the community as the U.S. locations. The offices hired locally, bought cars locally, and provided comprehensive service to the neighborhood markets they served. Enterprise's international focus was also primarily on the off-airport market, providing temporary replacement cars, corporate travel vehicles, and fleet management to firms with temporary transportation needs and serving local dealerships and service shops for loaner purposes.[12]

Mission and Values

When Jack Taylor founded Enterprise, he clearly articulated his business philosophy:

Exhibit 5 **Enterprise Rent-a-Car International Operations**

Canada (opened in 1993)	More than 380 branch offices including several airport locations
United Kingdom (opened in 1997)	More than 300 branch offices including locations at Heathrow and Gatwick airports
Germany (opened in 1997)	More than 150 branch offices
Ireland (opened in 1998)	More than 20 branch offices

Source: Company Web site http://aboutus.enterprise.com/what_we_do/intl_operations.html (accessed February 20, 2007).

- "Take care of your customers and your employees, and profit will take care of itself."
- "Treat customers the way you would want to be treated as a customer."
- "Repeat customers are the quickest way to build a solid base of business."
- "Never promise what you can't deliver; deliver more than you promise."
- "After dealing with us, we want customers to say, 'This is the best place I've ever done business.'"[13]

Enterprise had remained true to these basic principles. They were reflected in the company's mission statement, shown in Exhibit 6.

Taylor's philosophy was also reflected in a tool called the Enterprise Cultural Compass, shown in Exhibit 7. The company developed the compass to guide its service-oriented employees in conducting business and in interactions with each customer, each other, and their local communities. The compass was also intended to aid employees in focusing on key areas throughout the organization. To help promote the values depicted in the compass, Enterprise developed an award named the Jack Taylor Founding Values Award, which provided winners with a grant from the Enterprise Rent-a-Car Foundation that could be used for qualified nonprofit causes in the winners' local communities. Employees were expected to adhere to these principles in all of their business dealings. A failure to do so could result in disciplinary action or dismissal.

Enterprises' ability to live up to this ambitious philosophy and mission were demonstrated by the multiple awards the company had won in the areas of customer service, job satisfaction, and hiring practices. For example, between August 2006 and February 2007, *BusinessWeek* recognized Enterprise as both one of the best places to start a career and as a Customer Service Champ.

In 2007, Jack Taylor's founding principles were also sustained by his son Andrew (Andy) Taylor, who served as the company's CEO. The Taylor family was still the principal owner of Enterprise and the company was one of the 20 largest private companies in the United States. Andy Taylor became president of Enterprise in 1980 and had been CEO since 1994. At age 16, Andy jockeyed cars at Enterprise and later received an undergraduate degree in business at the University of Denver. Andy was known throughout the organization for his strong belief in Enterprise's founding principles and his relentless work ethic. Andy flew up to 300 hours annually on business and would come into his St. Louis office on Saturdays when home. An inspirational leader, Andy Taylor stated that his father had worked on weekends and that if Enterprise employees were expected to work on Saturday, then so should he. His willingness to work alongside branch managers was a powerful motivational tool for his employees and had won him their respect and dedication.

Focus on Customer Service

Customer service was at the core of Enterprise's business philosophy. However, until 1989 Enterprise did not systematically measure customer service. After launching a national advertising campaign,

Exhibit 6 Enterprise Rent-a-Car Mission Statement, 2007

Our mission is to fulfill the automotive and commercial truck rental, leasing, car sales and related needs of our customers and, in doing so, exceed their expectations for service, quality and value.

We will strive to earn our customers' long-term loyalty by working to deliver more than promised, being honest and fair and "going the extra mile" to provide exceptional personalized service that creates a pleasing business experience.

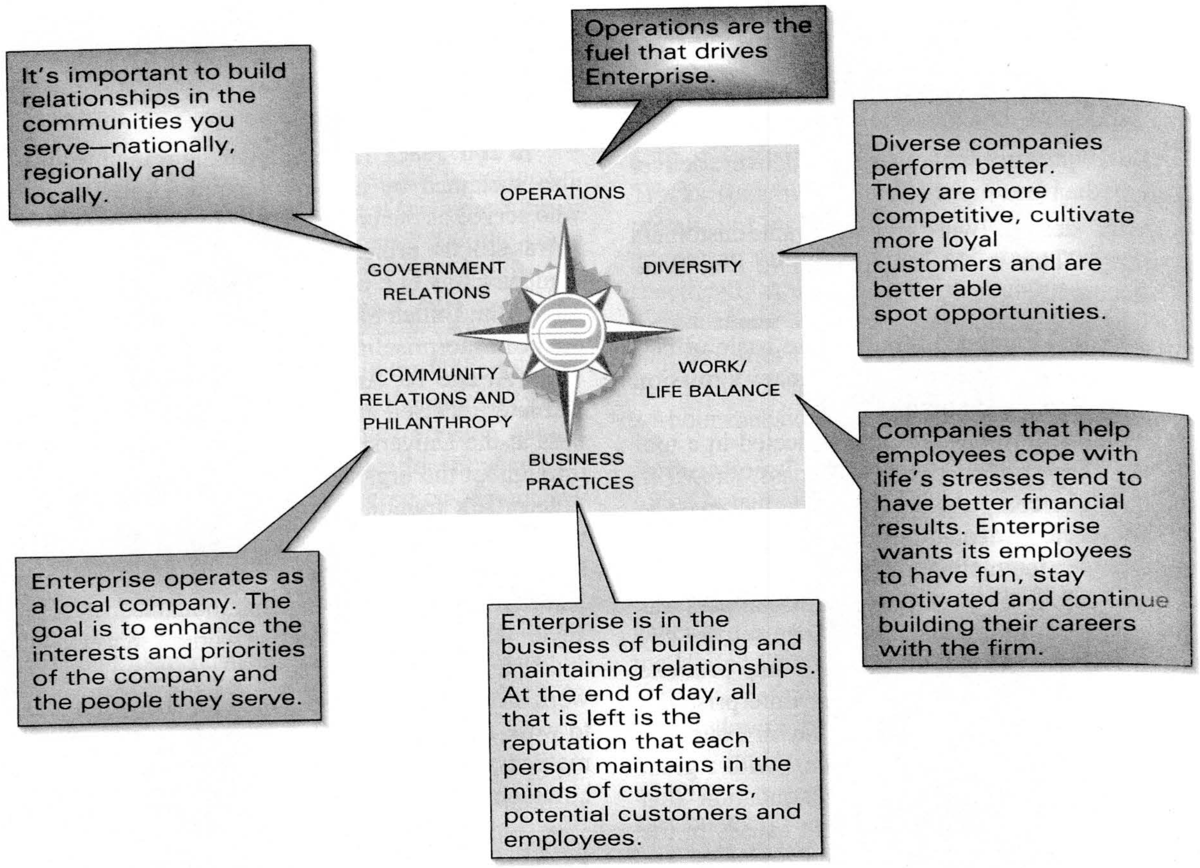
We must motivate our employees to provide exceptional service to our customers by supporting their development, providing opportunities for personal growth and fairly compensating them for their successes and achievements.

We believe it is critical to our success to promote managers from within who will serve as examples of success for others to follow.

Although it is our goal to be the best and not necessarily the biggest or the most profitable, our success at satisfying customers and motivating employees will bring growth and long-term profitability.

Source: Company Web site http://aboutus.enterprise.com/who_we_are/mission.html (accessed February 20, 2007).

Exhibit 7 **Enterprise Rent-a-Car's Cultural Compass**



Source: www.aboutus.enterprise.com (accessed February 20, 2007).

the company decided to measure the effectiveness of the new ad program. In the survey of 250 people that was used to measure advertising effectiveness, the company asked customers how satisfied they were, overall, with their enterprise experience. From the initial survey in 1989 the overall satisfaction index was 90 out of 100, but only 66 percent of the respondents answered that they were completely satisfied. Another 26 percent were moderately satisfied, 3 percent were slightly satisfied, 2 percent were slightly dissatisfied, 1 percent was moderately dissatisfied, and 2 percent were completely dissatisfied. Enterprise calculated a "top box" score of 61 by subtracting all of the customers who noted they were dissatisfied (5 percent) from those who were completely satisfied. From 1990 to 1993 the satisfaction index ranged from 86 to 89, and the top box score ranged from 53 to 71.[14]

In 1994, the company's top box score fell to 50 with an overall satisfaction index of 86. In 1996, Jack Taylor approached his son Andy, who was then CEO at senior management retreat, and said, "Andrew, we have a *big* problem . . ."[15] Jack was concerned that the company's rapid growth of the previous decade had caused Enterprise to lose its focus on customer service. While Andy had been getting anecdotal information that this might be true, additional investigation by Andy revealed that other top managers were getting indications that customer service failures were occurring in the organization. In response to this troubling information, the company undertook an extensive process over more than a year to develop and execute a systematic customer service survey. The company received approximately 400 responses from the first survey; the initial results seemed promising in that less than 10 percent of the respondents indicated that they were somewhat dissatisfied or completely dissatisfied. However, only 67 percent of respondents indicated that they were completely satisfied. While this number was discouraging, the truly problematic statistic was the range of scores between the geographic regions. While some regions were in the mid-80s, others, such as Enterprise's largest and most profitable market in Southern California, scored in the mid-50s.[16]

Not surprisingly, the first step in solving this problem was to convince the managers of the regions with the low scores that they actually had a problem. The managers in these regions attacked the validity of the survey and criticized the way it was administered. However, when further research showed that 70 percent of the customers who said they were completely satisfied would rent from Enterprise again (as opposed to only 22 percent of those who were somewhat satisfied), managerial attention turned to how the company could strengthen the survey and address the problems it raised. Additional research also showed that the three main factors customers cared about were the attitude and helpfulness of Enterprise employees, transaction speed, and the cleanliness of the cars. Of these, the attitude and helpfulness of the staff was by far the most important factor.

By the time the process was complete, Enterprise had invested over $10 million in developing the Enterprise Service Quality Index (ESQi) to ensure that it was a reliable, accurate, and useful management tool. Despite the significant investment in the ESQi, Enterprise did not see any significant changes in its business processes or customer service rankings until it tied individual compensation and career advancement to it. Operating reports were redesigned to highlight the ESQi score, and each region's score was communicated widely across the entire organization. Customer satisfaction was put on the agenda of every *meeting* at Enterprise and managers were held publicly responsible for their scores. A few managers who tried to game the system (by asking customers for high scores on the survey, or by devising schemes to ensure that dissatisfied customers were not contacted) were terminated from the company when their activities were discovered. Even with these efforts, it was not until 1999 that the company felt it had turned the corner.

The company had continued to improve customer service as well as the ESQi. By 2007, the survey process had been redesigned so that 1 out of every 15 customers was contacted for a quick phone survey. These customers are asked: (1) On a scale ranging from "completely satisfied" to "completely dissatisfied," how would you rate your last Enterprise rental experience? and (2) Would you rent from Enterprise again? Answers from the first question were compiled into an index for each branch. Approximately 98 percent of the customers who were contacted participated in the survey, and in early 2007 the company average ESQi score had reached 80 (meaning that 80 percent of all survey respondents answered "completely satisfied") and the company had been ranked top in customer service in the auto rental business for three consecutive years.

Hiring and Store Operations

Unlike many other auto rental companies, or large organizations in general, Enterprise encouraged its employees to be entrepreneurial and gave its branch managers significant autonomy in running their local operations. The typical Enterprise branch had a team of five to seven employees and a fleet of 125 cars. Branches much larger than this were divided, and assistant managers at these growing branches could be promoted to branch managers at the new locations. The basic philosophy used to staff Enterprise branches was to hire well-educated, competitive, social individuals with a strong work ethic and then give them a sense of ownership and nurture their entrepreneurial spirit through training and a strong inventive program.

In achieving this culture, Enterprise employed a highly decentralized structure that relied on independent field managers, who resembled franchisees. These new employers were taught how to run their own businesses through an award-winning training program, known as a "virtual MBA," that provided new hires with a broad set of skills. These diverse skills were essential, because each field manager was responsible for managing a range of branch operations, including determining the need for cars, opening branches, selling used cars, and setting local rental prices, within corporate limits. While students seeking specialized employment might not pursue employment at Enterprise, many students sought the challenge of a diverse work environment. In fact, the company had been recognized multiple times as being one of the best places to start a new career and was the largest employer of new college graduates. In 2007, the company was slated to hire over 8,000 new graduates and had a new-hire retention rate ranging from 50 to 70 percent.

While Enterprise encouraged an entrepreneurial spirit among its employees, the company still enforced some corporate control over branch operations to ensure consistency and to implement corporate goals. For example, staff members were required to be in business dress and Enterprise closely monitored pricing to ensure that the firm's most valuable customers, insurers, did not complain that their rivals were getting better rental prices. Additionally, the sense of ownership Enterprise sought to instill in its employees could lead them to become very vocal when overhead costs imposed by headquarters started to cut into branch profits or when strategic change mandated from corporate cut personal earnings.

In the 1980s, when Jack Taylor thought the firm needed to advertise on national television, the field argued that the expense was unnecessary. Taylor still decided to go ahead with the program and hired a New York–based agency that came up with the Enterprise auto wrapped in brown paper. While the campaign was successful, some branch managers complained that it only served to make firms such as Hertz aware that Enterprise was a serious competitor.

Compensation and Incentives

Enterprise's compensation and incentive structure were keys in promoting an entrepreneurial spirit throughout the company. All new hires started out washing cars and earning anywhere from $30,000 to $38,000. After being with the company a year and a half, employees were eligible to be promoted to assistant branch manager, where their total compensation included a salary plus a percentage of the branch's profits at the end of each month. However, an employee could not be promoted if his or her branch's ESQi score was not at or above the corporate average.

In Enterprise's compensation system, each branch was treated as a profit center and the total compensation of each branch manager and assistant manager was largely contingent on the branch's profitability. The company believed that this strongly aligned the interests of the employees with those of the company. From this level all the way to the top of the company, individuals' salaries were tied to the performance of operations for which they were responsible. In effect, the company's operations formed a series of pyramids, with managers at any given level earning a percentage of all that was made below them.

The compensation system often resulted in employees being willing to work more than the company's 49½-hour maximum workweek. Some workers had sued, claiming that they deserved overtime pay. However, for those employees who made it into the managerial ranks, the compensation could be significant. The vast majority of Enterprise's top managers had started their careers working in a branch, and at the upper echelons of the company managers could earn millions of dollars a year through the company's hierarchical compensation system.

Information Technology

Enterprise used the Automated Rental Management System (ARMS), a proprietary system that linked all of the company's locations using simple desktop technology to automatically update and send vehicle status reports directly to insurance companies via the Internet. Enterprise had grown by focusing on insurers and their close collaborators, auto repair shops, and currently received one-third of its total revenue, around $3 (billion) from U.S. insurers. Enterprise was the "preferred provider" for dozens of the biggest insurance companies and even had employees implanted full-time in many of the insurers' offices. The firm had gotten so big that insurers wanted alternative providers, which gave competitors such as Hertz an opportunity to move in. Nevertheless, for the past decade the insurance industry had used the ARMS, which worked by facilitating and streamlining three-way communication between Enterprise, insurers, and auto repair shops. The ARMS initiated auto rental reservations, monitored repairs, and authorized payment through electronic funds transfer, speeding up the entire process and increasing customer satisfaction. Over 60,000 adjusters and more than 500 worldwide insurance companies currently use the ARMS.

In February 2006, Enterprise announced a strategic partnership with FIX AUTO Network, one of the biggest providers of business solution technology to the collision industry to expand the reach of the company's ARMS. Through this agreement, Enterprise planned to integrate its ARMS with FIX AUTO's technology system to create a more efficient way to streamline collision repair and rental status reports for monitoring by insurance companies.

Exhibit 8 **Enterprise's Revenues, 2000–2006**

Fiscal Year	Worldwide Revenue
2000	$5.6 billion
2001	$6.3 billion
2002	$6.5 billion
2003	$6.9 billion
2004	$7.4 billion
2005	$8.2 billion
2006	$9.0 billion

Source: www.enterprise.com (accessed February 20, 2007).

Financial Performance

Enterprise was privately held, so standard financial performance information was not publicly available. However, management had indicated the company had achieved a compound annual revenue growth rate of 20 percent for the past 25 years; 2006 revenues were in the $9 billion range (see Exhibit 8). According to Standard & Poor's Ratings Services, Enterprise's credit ratios were by far the strongest in the auto rental industry. Its strong balance sheet had resulted in an A rating on unsecured debt and interest rates around 6.2 percent. *Fortune* estimated that Enterprise's profits for fiscal year 2006, on its $9 billion in revenues, would be upward of $700 million.[17] In addition, Enterprise's true equity market value was estimated to be around $17 billion. The company ranked number 16 on the most recent *Forbes* magazine "America's Largest Private Companies" list, and its $9.04 billion in revenues would have placed it number 259 in the most recent Fortune 500 ranking of publicly held U.S. companies. In just over a decade, the firm had moved up the equivalent of nearly 200 places in the annual Fortune 500 rankings.

Enterprise produced superior financial results relative to its competitors for several reasons: Its business was not particularly cyclical (mostly because of the little exposure to the volatilities of air travel), its balance sheet was not highly leveraged, it generated strong cash flows from operations, and it had proven ability to curtail capital spending, allowing it to continue funding vehicle purchases and servicing debt.

COMPETITORS

Hertz

Headquartered in Park Ridge, New Jersey, Hertz was a global leader in the auto rental market and also offered rental of industrial and construction equipment. The Hertz family of companies is shown in Exhibit 9. For the fiscal year ending December 2005, Hertz generated revenues of $7,314.7 million, an increase of 11.9 percent over the previous year. The company reported a net income of $398.8 million for fiscal 2005, an increase of 3.3 percent over fiscal 2004.

The company was founded in Chicago, Illinois, in 1918 and in 1932, introduced the first fly/drive auto rental program. In 1984, Hertz developed and introduced computerized driving directions (CDD) and then became the first auto rental company to offer this service. Directions were available in six languages at customer rental locations through self-serve

Exhibit 9 **Hertz Family of Companies**

Hertz Local Edition	Opened for over 80 years; the second largest auto rental company in the world, on- and off-airport locations
Hertz Equipment Rental	Rental and sale of heavy equipment and tools for construction and industrial needs
Hertz Car Sales	Sale of one-year-old vehicles from the rental fleet with low fixed prices
Hertz Claim Management	Claim management services for liability exposures; specializing in auto and general liability claims
Hertz Truck & Van Rental	Truck and van rentals for all moving needs
Hertz Lease	Offers a wide range of operational leasing and fleet management services through a franchise network around Europe, the Middle East, and Africa

Source: www.hertz.com (accessed February 20, 2007).

touch screen kiosks. In 1995, Hertz introduced its NeverLost navigation system to the United States. In 1998, it collaborated with Magellan in an exclusive joint venture so that Magellan could oversee the expansion and operation of the NeverLost system. In 2001, Hertz launched its premium auto rental service, the Hertz Prestige Collection, which included rentals from Jaguar, Land Rover, Lincoln, and Volvo. In 2004, they introduced wireless, high-speed Internet access to more than 50 major airport locations across the United States. In December 2005, an indirect, wholly-owned subsidiary of Hertz Holdings acquired all of Hertz's common stock from Ford Holdings. In January 2006, Hertz introduced the Hertz Fun Collection, with vehicles tailor-made for travelers seeking exciting driving experiences featuring a selection of convertibles, coupes/roadsters, and SUVs. In addition, all Fun Collection vehicles feature SIRIUS Satellite Radio and customers can reserve the cars by brand and model. Also in 2006, Hertz introduced its Green Collection of fuel-efficient, environmentally friendly cars, which customers could reserve by make and model.

Hertz had been a perennial runner-up to Enterprise in terms of total market share in the auto rental business, but its core competency lay in the on-airport business, where it had around 28 percent of the market. Hertz operated approximately 3,100 auto rental locations in the United States and approximately 4,600 international locations, representing more than 150 foreign countries, including France, Germany, Italy, the United Kingdom, Australia, Canada, Spain, the Netherlands, and Switzerland. Hertz operated in two major segments: auto rental and equipment rental. It also generated revenues from customer airport concession fee reimbursements and vehicle licensing costs, fueling charges, and charges for supplemental products and services that included child seats, ski racks, loss or collision damage waiver, liability insurance, Hertz NeverLost navigation system, and satellite radios. Hertz maintained auto repair centers at some airports, as well as in urban and suburban areas. Many of these repair shops were eligible to perform and receive reimbursement for warranty work from auto manufacturers and insurers.

Hertz's primary focus was the on-airport market, but it increased the number off-airport locations by 44 percent (to 1,200) between 2005 and 2007 with the intent to expand further. With a goal of increasing its share of the rapidly growing leisure business, the company had also taken direct aim at Enterprise's auto insurer business. Although Enterprise had a solid lock on this market, some insurers did not want to be overly reliant on Enterprise and were willing to explore options with other auto rental companies. Enterprise and Hertz were also engaged in a struggle over Enterprise's ARMS software. Hertz had been accused of software infringement on Enterprise's ARMS; if found guilty, Hertz would have to pay damages but, more significantly, might suffer a disadvantage in growing its off-airport business. Despite its clashes with Enterprise, Hertz had steadily grown its revenue since 2000 (see Exhibit 10) and had made significant improvements in net income since 2002.

Avis Budget Group

In 2007 Avis Budget Group had about a 32 percent share of the on-airport auto rental market via its Avis and Budget brands, and its Budget Truck Rental operation was the second largest consumer truck rental business in the United States. The Avis, Budget, and Budget Truck brands accounted for approximately 61 percent, 31 percent, and 8 percent of 2006 revenues, respectively Management believed that the company gained significant economies from operating two distinct brands targeting different market segments while sharing the same fleet, maintenance facilities, technology, and administrative infrastructure. Exhibit 11 shows the company's income statement for 2004–2006.

Avis Budget Group operated about 6,700 auto and truck rental locations in North America, Australia, New Zealand, Latin America, the Caribbean, and portions of the Pacific region. The rental fleet averaged around 410,000 vehicles, with the company completing more than 28 million auto rental transactions worldwide in 2006. In 2006, the company's domestic car rental business, which included almost 330,000 vehicles, generated approximately 89 million rental days and realized average revenue per day of $40.01. The international car rental business had a rental fleet of approximately 53,310 vehicles, generated approximately 14 million rental days, and realized average revenue per day of $39.61 per vehicle. The truck rental fleet (about 30,500 vehicles) generated approximately 4.6 million rental days and realized average revenue per day of $86.28 per vehicle.

The Avis brand was positioned as a leading supplier to the premium commercial and leisure

Exhibit 10 **Hertz Income Statement, 2001–2005 ($ in millions)**

	2005	2004	2003	2002	2001
Revenues					
Auto rental	$5,949.9	$5,430.8	$4,819.3	$4,537.6	$4,366.6
Equipment rental	1,414.9	1,162.0	1,037.8	1,018.7	1,128.7
Other	104.4	83.2	76.6	82.1	101.6
Total revenues	7,469.2	6,676.0	5,933.7	5,638.4	5,596.9
Expenses					
Direct operating expenses	4,189.3	3,734.4	3,316.1	3,093.0	3,248.0
Depreciation of revenue earning equipment	1,599.7	1,463.3	1,523.4	1,499.5	1,462.3
Selling, general, & administrative	638.5	591.3	501.7	463.1	479.2
Interest, net of interest income	500.0	384.4	355.0	366.4	404.7
Total expenses	6,927.5	6,173.4	5,696.2	5,422.0	5,594.2
Income (loss) before income taxes and minority interest	541.7	502.6	237.5	216.4	2.7
(Provision) benefit of taxes on income	(151.6)	(133.9)	(78.9)	(72.4)	20.6
Minority interest	(12.6)	(3.2)			
Income (loss) before cumulative effect of change in accounting principle	377.5	365.5	158.6	144.0	23.3
Cumulative effect of change in accounting principle	—	—	—	(294.0)	—
Net income (loss)	$ 377.5	$ 365.5	$ 158.6	$ (150.0)	$ 23.3

Source: Company 10-K report for 2005, p. 46.

segments of the travel industry Avis rented vehicles at approximately 2,000 locations in the United States, Canada, Puerto Rico, the U.S. Virgin Islands, Argentina, Australia, and New Zealand. Budget was a well-recognized value brand aimed at serving the price-conscious rental auto segment; Budget rented vehicles at about 1,800 locations in the United States, Canada, Puerto Rico, Australia, and New Zealand. Like Hertz, Avis was focused on expanding its off-airport locations. In 2006, Avis Budget's truck rental business consisted of a fleet of 30,500 vehicles that were rented through a network of 2,400 dealer-operated locations, 210 company operations, and about 100 franchise-operated locations across the continental United States.

Avis Budget Group's financial and strategic objectives included expanding revenue sources, maximizing profits, and pursuing growth in the off-airport market. The company intended to increase sales of its optional insurance products and push at-the-counter upgrades (called "up sells"), as well as boost sales of ancillary rental products such as Where2 global positioning navigation. Management expected to open 200 new rental locations in both 2006 and 2007, and add Budget auto rentals to the product offerings at its truck dealerships. New locations were expected to reach break-even in six to nine months.

National Car Rental and Alamo Car Rental

Vanguard Car Rental USA Inc., the parent company of National Car Rental and Alamo Rent a Car, operated more than 3,000 locations in the United States and Canada, the United Kingdom, Germany, Sweden, Latin America, the Caribbean, Japan, Australia, New Zealand, and Singapore. Its fleet consisted of about 275,000 vehicles that were rented to about 15 million travelers. Exhibit 12 shows selected financial and operating data for 2004–2006.

Vanguard Car Rental Group operated National and Alamo as two separate brands under common ownership. National was positioned to target commercial and corporate accounts, frequent business travelers, and premium leisure renters. Commercial

Exhibit 11 **Avis Budget Group's Income Statement, 2004–2006 (in millions of $)**

	2006	2005	2004
Revenues			
Vehicle rental	$4,519	$4,302	$3,860
Other	1,170	1,098	960
Total	5,689	5,400	4,820
Expenses			
Operating	2,887	2,729	2,413
Vehicle depreciation and lease charges, net	1,416	1,238	988
Selling, general and administrative	818	857	784
Vehicle interest, net	320	309	244
Non-vehicle related depreciation and amortization	105	116	115
Interest expense related to corporate debt, net:			
Interest expense	236	172	251
Early extinguishment of debt	313	—	18
Separation costs	261	15	—
Restructuring charges	10	26	—
Total expenses	6,366	5,462	4,813
Income (loss) before income taxes	(677)	(62)	7
Benefit from income taxes	(226)	(51)	(64)
Income (loss) from continuing operations	(451)	(11)	71
Income from discontinued operations, net of tax	478	1,088	1,822
Gain (loss) on disposal of discontinued operations, net of tax	(1,957)	549	198
Income (loss) before cumulative effect of accounting changes	(1,930)	1,626	2,091
Cumulative effect of accounting changes, net of tax	(64)	(8)	—
Net income (loss)	$(1,994)	$1,618	$2,091

Source: 2006 10-K report.

and corporate accounts represented National's largest source of revenue, with National serving more than one-third of the Fortune 500 companies. The Alamo brand was primarily focused as a value brand intended to serve the needs of less-frequent leisure travelers and tour operators.

National had a history of innovation in the industry and had developed several industry features to improve the rental experience for its customers. In 1954, National became the first auto rental company to offer one-way rentals for customers wishing to rent cars in one town and return them in another. In 1966, National equipped its regional reservation offices with the Telemax computer system, officially becoming the first auto rental company to bring computers into daily reservation operations. After the deregulation of the airline industry in 1976, National opened its doors to the new segment of leisure travelers when it became the first company to offer flat rates to auto renters.

As one of the first auto rental companies to initiate corporate account business in the late 1970s, National made a commitment to the corporate travelers early on. In 1987, National introduced the industry's first comprehensive frequent-renter program, the Emerald Club, and the Paperless Express Rental Agreement, which used information stored in the company's customer database system to speed auto rental transactions and heighten its appeal to time-sensitive business travelers. Other National innovations included (1) the Emerald Aisle, that permitted customers to select their own cars, complete a rental transaction without filling out any paperwork, and bypass the rental counter completely; (2) the Choice Rental Process, which gave customers the ability to select their own vehicle; and (3) the QuickRent

KEY

Exhibit 12 **Selected Financial Statement and Operating Data, Vanguard Car Rental, 2004–2006 ($ in millions)**

	First Six Months, 2006	2005	2004
Rental revenues	$1,456.8	$2,815.5	$2,632.0
Total revenues	1,496.6	2,891.1	2,701.6
Costs and expenses			
Direct vehicle and operating costs	690.8	1,279.1	1,215.2
Selling, general, and administrative expenses	239.9	469.4	487.8
Vehicle depreciation and lease charges	381.5	688.9	595.0
Vehicle interest expense, net	119.9	231.9	162.1
Non-vehicle interest expense, net	17.8	39.6	41.2
Net (gain) loss from derivatives	(10.6)	(0.8)	2.0
Other (income) expense, net	2.8	(1.8)	(3.4)
Income before provision for income taxes	54.5	184.8	201.7
Provision for income taxes	15.9	79.5	30.0
Net Income	$38.6	$105.3	$171.7
Selected balance sheet data			
Cash and cash equivalents	$288.3	$253.9	$172.6
Total assets	7,101.7	6,547.9	5661.7
Total debt	5,709.2	5,107.7	4,487.2
Stockholders' equity	291.2	279.0	182.2
Selected operating data			
Rental revenue per day	$42.33	$41.08	$41.36
Rental revenue per vehicle per month	$1,007.93	$990.83	$993.32
Average paid fleet	240,885	236,760	220,804
Rental days	34,416,332	68,521,486	63,642,013

Source: Vanguard Car Rental Group Inc., Form S-1/A filed September 20, 2006.

service, which offered customers not enrolled in the Emerald Club the ability to bypass the counter by completing their rental transactions online.

In an effort to fund future growth and offset increasing fleet costs and pressure from automobile manufacturers, Vanguard registered for an initial public offering (IPO) of $300 million in August 2006. Despite the planned IPO, rumors of a potential merger between Vanguard and the Dollar Thrifty Group began to circulate in late 2006. In March 2007 no definitive plans for a merger had been announced and Vanguard was still scheduled for an IPO.

Dollar/Thrifty

The Dollar/Thrift Group (DTG) operated the Dollar and Thrifty rental car companies as separate value brands with company-owned stores in the top 75 airport markets and key leisure markets in the United States and the top 8 airport markets in Canada under DTG Canada. While the two brands were operated separately, they shared vehicles, a single corporate management structure, and, where available, back-office employees and facilities.

The Thrifty brand was originally focused on franchising and franchise support services. In 2003, Thrifty's strategy changed and began to focus on acquiring franchises and operating company-owned stores. By 2007, Thrifty was operating approximately 478 locations in the United States and Canada with 271 franchise locations and 207 company-owned stores. Of these 478 locations, 109 were located at in-terminal locations in the United States. In 2006, Thrifty's total revenue was $616 million for the entire year, with 80 percent of the revenue coming from the airport market and the remaining 20 percent derived from the local market.

The Dollar brand had the majority of its locations at or near airports and was primarily focused on serving business and leisure travelers in the airport vehicle market. In 2007, the company had 358 locations (200 company-owned stores and 159 franchise locations) with 107 in-terminal airport locations. In fiscal year 2006, Dollar's total revenue at company-owned stores was $923 million.

In the United Sates there was some duplication of coverage between the Dollar and Thrifty brands. For example, while Dollar operated in 58 of the top 75 U.S. airport locations and Thrifty operated in 53, both brands operated in direct competition in 47 of these markets. Internationally, both the Thrifty and Dollar brands offered master franchises, generally on a countrywide basis. As of December 31, 2006, Thrifty had franchised locations in 66 countries and Dollar had franchised locations in 51 countries. The master franchisee in a given country could either operate all of the locations in a given country or award subfranchises. Total revenues from franchise locations outside the United States and Canada in 2006 totaled $8.2 million. The income statement for the Dollar Thrifty Group is presented in Exhibit 13.

Heading into 2007, three of the primary concerns of the DTG included overreliance on revenues from airport locations; high concentration in key leisure destinations (over 60 percent of total

Exhibit 13 **Selected Income Statement Data, Dollar Thrifty Group, 2004–2006 ($ in millions)**

	2006	2005	2004
Revenues			
Vehicle rentals	$1,539	$1,380	$1,256
Vehicle leasing	57	63	80
Fees and services	47	50	54
Other	18	15	13
Total revenues	1,661	1,508	1,403
Costs and Expenses			
Direct vehicle and operating	827	788	693
Vehicle depreciation and lease charges, net	380	295	316
Selling, general and administrative	260	236	223
Interest expense, net of interest income of $29,387, $18,388 and $6,929	96	88	91
Total costs and expenses	1,563	1,407	1,323
(Increase) decrease in fair value of derivatives	9	−30	−24
Income before income taxes	89	131	104
Income tax expense	37	54	42
Income before cumulative effect of a change in accounting principle	52	77	62
Cumulative effect of a change in accounting principle	—	—	4
Net income	$ 52	$ 77	$ 66
Basic Earnings Per Share			
Income before cumulative effect of a change in accounting principle	$ 2.14	$ 3.04	$ 2.51
Cumulative effect of a change in accounting principle	—	—	0.15
Net income	$ 2.14	$ 3.04	$ 2.66
Diluted Earnings Per Share			
Income before cumulative effect of a change in accounting principle	2.04	2.89	2.39
Cumulative effect of a change in accounting principle	—	—	0.14
Net income	$ 2.04	$ 2.89	$ 2.53

revenue was derived from Florida, Hawaii, California, and Nevada); and increased pressure from vehicle manufacturers. In response to these pressures, the DTG was exploring a merger with Vanguard. DTG management perceived that the two companies had complementary operations and that administration could be easily rationalized since both companies were headquartered in Tulsa, Oklahoma.

THE FUTURE AT ENTERPRISE RENT-A-CAR

In early 2007, there were several challenges emerging on the horizon that caused Enterprise concern. The first was that the potential DTG/Vanguard merger could change the face of the industry. Separately, neither of these companies represented a significant threat to Enterprise. Through consolidation, however, they would be the third largest auto rental company in the United States. A second challenge was that in response to Enterprise's significant growth in the on-airport market, Hertz had made concerted efforts to expand into Enterprise's lucrative off-airport market. While Enterprise had a big market-share edge in the off-airport market segment and was the leader in this segment by a long margin, Hertz grew its off-airport revenue by 46 percent between 2004 and 2005. Additionally, Avis and Budget planned to increase their off-airport locations by 20 percent annually. Finally, Hertz was actively working to break Enterprise's hold on renting vehicles to people whose car insurance paid for car rental charges while their vehicles were being repaired due to an accident; it had been making some progress with major insurance carriers, including State Farm. In response to these challenges, CEO Andy Taylor stated: "We own the high ground in this business, and we aren't going to give it up."[18]

Endnotes

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[3] www.answers.com/topic/passenger-car-rental (accessed February 20, 2007).

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[7] Enterprise Rent-a-Car Company Web site, www.enterprise.com (accessed February 20, 2007).

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[14] Ibid.

[15] Ibid.

[16] Ibid.

[17] Loomis, "The Big Surprise Is Enterprise," p. 142.

[18] Ibid.