The New York Times

BUSINESS DAY | ENTERPRISE'S UNCONVENTIONAL PATH

# Rental Car Giant Successfully Shuns Industry Shakeout

By GIANNA JACOBSON JAN. 23, 1997

For 40 years, Enterprise Rent-a-Car Inc. has gone against all the conventional industry wisdom. Not only has it ceded the bread-and-butter airport business to Hertz, Avis and other national competitors, but it has also done without celebrity-driven advertisements and catchy slogans.

Yet while the Hertz Corporation and the others got the higher profiles, the St. Louis-based Enterprise has become the industry's giant.

Sticking close to the niche it developed -- providing rentals for customers whose cars are being repaired or who need an extra car -- Enterprise is No. 1 in fleet size and locations. And though it trails Hertz in revenues ($3.1 billion versus $3.8 billion in 1996), its estimated $500 million in pretax earnings probably make it No. 1 in profits, too. (Hertz, a unit of the Ford Motor Company, does not disclose earnings.)

"Enterprise's track record is astonishing," said Jon LeSage, editor of Auto Rental News, a trade publication based in Redondo Beach, Calif. "They have very quietly and humbly built an empire."

Now, as the $16.5 billion industry reorganizes in the wake of a six-month spate of acquisition deals, the question is whether Enterprise and its owners, the founding Taylor family, can keep that empire, and all those profits, largely to themselves.

Auto manufacturers, stuck with hefty write-offs or paltry profits from their rental car subsidiaries, are beating a hasty retreat from the overcrowded business, which no longer is needed, as it was during the recession, as a captive market for new cars. In the last six months, four of the biggest rental car companies have changed hands, or are about to. Two others are for sale, and Hertz itself may be heading for the block as well.

The changing of the guard ushers in two wily financial chieftains -- H. Wayne Huizenga, the founder of Blockbuster Video, and Henry Silverman, head of HFS Inc., the world's largest franchiser of hotels and real estate offices -- who promise to bring a new aggressiveness to the business. Mr. Huizenga's Republic Industries owns Alamo Rent-a-Car and is in the process of buying National Car Rental; HFS owns Avis Rent a Car.

Characteristically, the Taylors say they will continue to go against the grain, keeping Enterprise in the family and out of the airports. And, they say, they are more than capable of fending off the inevitable assault on their profitable terrain.

"I am watching this frenzy with fascination, but I am sitting on the sidelines," said Andrew Taylor, Enterprise's chief executive and son of the company's founder and chairman, Jack Taylor. "Everybody wants to throw us in the same pot with the other rental car companies, but our businesses are different. We have no plans to be in the airports. We're sticking to our niche."

And why not? Enterprise dominates the replacement niche, also known as the home-city rental business, with more than 70 percent of the market, according to a report prepared by Jordan Hymowitz, an industry analyst with Montgomery Securities in San Francisco.

"Not only is Enterprise profitable, but it is in the fastest-growing and least competitive rental car niche," the report said. "An industry adage states there are two types of rental car companies: those that lose money and Enterprise."

But if Andrew Taylor is not going after the "Airport Seven," as he calls them, he concedes that they are beginning to invade his turf.

"They're coming after us," he said, "no question."

Already, Hertz is revamping its replacement division, dubbed H.I.R.E. (for Hertz Insurance Replacement Entity), and Alamo is considering a similar division.

"Whenever you have one player in a market segment, there is room for competitors," said Joseph Russo, a Hertz spokesman.

Andrew Taylor responded with typical competitive fervor: "Our delivery network is tough to compete against. Our ability to move people and resources around the organization is pretty awesome. It will be interesting to see who gets that growth in market share."

Indeed, Enterprise is a maverick in a lot of ways that have paid off and will be hard to match. Simply by locating its 3,100 branches away from airports, it reduces overhead significantly by cutting out high concession fees. It saves more by handling its own reservations, avoiding 10 percent travel agent commissions and a separate 3 percent fee that other rental car companies pay to use a shared reservation system. And it employs a highly sophisticated computer network to track the whereabouts and service history of each of its 315,100 cars, keeping inventory lean and cars on the road an average of six months longer than Hertz and Avis do. At the same time, the company is known for its extra level of service: it often delivers cars to customers' homes or takes customers to the cars.

The new market picture will become clearer in the next year, as the industry adjusts to all the ownership changes. HFS touched off the flurry of deals last July, when it bought Avis from its employees and the General Motors Corporation for $800 million. In the last few weeks alone, these deals or related events have transpired:

*Team Rental Group Inc. said it was acquiring the Budget Rent a Car Company from Ford for $350 million. Team Rental is the largest Budget franchisee.

*Republic Industries announced its intention to buy National from G.M. for

$600 million, on the heels of its purchase of Alamo from Michael Egan, a rental car executive who owned 94 percent of Alamo, for $625 million.

*The Chrysler Corporation put its Dollar Rent-a-Car and Thrifty Car Rental divisions on the block.

*Ford said it was exploring possibilities for Hertz, including an initial public offering and a spinoff.

"I've never seen anything like this frenzy of activity around the rental car business," said Neil Abrams, a Purchase, N.Y., auto rental industry consultant. "What is remarkable about Enterprise is that it is the only major player in the industry that has had no changes in ownership or top management in the past four years."

The rental car companies that had been owned by the car makers relied heavily on manufacturer subsidies for what little profitability they had.

With the recent deals, financial managers have taken over the show. Mr. Huizenga will use National and Alamo as a "used car factory" of sorts, according to the Montgomery Securities report. Both will supply cars for Republic's budding Auto Nation USA chain, which sells late-model used cars.

Mr. Silverman of HFS also hopes to benefit from having complementary businesses. With such well-known chains as Century 21, Coldwell Banker, Days Inn, ERA, Howard Johnson, Ramada (U.S.), Super 8 and Travelodge, HFS operates a vast reservation system with endless opportunities to promote Avis rentals.

The increased emphasis on profitability is unlikely, however, to result in consumers paying more for rentals, experts say, because the industry is too fee-competitive. "We are not optimistic about seeing even modest price increases in the near future," Mr. Hymowitz, the analyst, wrote.

As the dust settles, Andrew Taylor remains bullish about Enterprise's prospects, estimating revenues will jump to $6 billion by 2001.

The company will grow, he said, by opening more branches across the United

States and especially abroad. With 150 branches in Canada and Britain, Enterprise is preparing to venture into Western Europe next, beginning in Germany.

Enterprise also wants to amass local and regional players in the replacement rental market. Last year, it bought Standard Rent-a-Car, a Sacramento, Calif., company, and Agency Rent-a-Car, a replacement division of Avis spun off by HFS. Enterprise closed Agency's branches shortly after the purchase.

As ambitious as Enterprise's plans are, Andrew Taylor is quick to point out, ''We don't have to grow.'' At least not in light of the estimates that place its profits at the $500 million level, according to Mr. LeSage of Auto Rental News.

Enterprise's secret profitability weapon, Mr. LeSage said, is management of fleet costs, which account for nearly half of operating expenses.

While the business and leisure rental car companies have relied on manufacturer subsidies and buybacks, ''nobody is better than Enterprise at negotiating prices to buy and sell cars,'' Mr. LeSage said. Enterprise sells its cars at 30 retail lots it owns around the country, in a fashion nearly identical to Mr. Huizenga's much-heralded chain.

Though Enterprise has grown most quickly in the last 15 years, it has long benefited from innovative strategies. Jack Taylor, a World War II fighter pilot aboard the U.S.S. Enterprise (hence the company name), left his job as a Cadillac salesman in 1957 to effectively invent the concept of auto leasing with his first venture, Executive Leasing.

As leasing began taking off nationwide in the 1970's, the father-son team started to push their replacement-rental business -- which they had formed in 1963, with 17 cars -- as a service to leasing customers.

''We could see this niche and we figured there was something here,'' said Andrew Taylor, 49, who took over as chief executive in 1991. ''There was an evolution of people's reliance on having transportation all of the time, and we were fortunate to ride that wave.''

Executive Leasing remains a division of Enterprise, though it accounts for less than 5 percent of the company's gross revenues.

A highly decentralized network of company-owned branches -- "a confederation of small businesses," in Andrew Taylor's description -- fuels Enterprise's growth on the strength of referral relationships with auto dealers, insurance agents and adjusters and body shops. Competition among the branches is notorious, with managers encouraged by the home office to place bets with each other on staff performance. (The losers might pay for dinner or work extra hours at the winning branch.)

But as Enterprise grows, Andrew Taylor says, it is getting harder to find enough employees with the competitive mind-set he seeks and the affability necessary to work with the public for long hours.

This year alone, Enterprise is preparing to hire 10,000 college graduates for its management training program, making it one of the nation's largest hirers. Enterprise now has 31,000 employees.

About 25 percent of the new hires will leave before six months. Those who stay do everything from washing cars and picking up customers to handling paperwork. Almost everybody in the company, from Andrew Taylor down, goes through the program. As Mr. Taylor likes to say, "We've all had our ties sucked into the vacuum."

Richard Allen, the Enterprise vice president who leads the recruiting effort, recognizes the enormousness of the job. "We need more people than most companies to facilitate our ongoing growth," he said. "We need to be more aggressive than most in who we hire."

As the industry begins a new era, aggressive will be the watchword at Enterprise for more than just hiring.

"This is a business of details, not brilliance," Andrew Taylor said. "Our customers don't care if we have the best computer system. They want someone to look them in the eye and ask, 'How can I help you?' "

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