Part 2 of a series on car rental's changing landscape

# The Technology-Driven Web World Order

*The Internet's growing role as a core revenue channel, along with other advances in technology, creates growth opportunities for RACs bold enough to adapt quickly.*

**By Vafa Akhavan and Mayra Harley**

*Approximately 170 million Americans use the Internet, with travel as one of the leading product categories for online purchasing. Car rental holds the third position in percentage share of online travel spending.*

Today, 54% of American Internet users — 93.5 million people — research travel online. Travel is the sixth most popular product category on the Web, according to a Stanford University study. In the car rental industry, the Internet's influence has shifted market and segment share, transformed revenue streams, and improved operations and customer service. For smaller rental companies, e-commerce has also increased profit opportunity and promoted brand awareness previously off-limits.

The Internet tends to foster transparency and remove barriers. While Enterprise Rent-A-Car can create a strategic advantage — indeed, a potential barrier to entry — through technology interface in its core segment, the Internet is an open portal that can reduce such advantage, particularly in other segments.

But to capitalize on this potential, rental operators must understand and respect the scope of the Internet's influence. Then, through personnel, knowledge and technology, RACs can integrate those strengths into strategy, execution, process and systems.

## Who's Spending Money Online?

Approximately 170 million people use the Internet in America. North American e-commerce is projected to reach $3.4 trillion, representing 51% of the global projection. The number of women using the Internet has now surpassed the number of men. More purchases are now made on the Internet than by phone.

The region with the most phone purchases is the Northeast, while the West has the most Internet purchases.

Travel research is the seventh most popular activity on the Internet. The tenth is buying. About 36% of Internet users shop online. Of those, 14% have bought travel services.

*The 2003 J.D. Power Domestic Airport Rental Car Customer Satisfaction Study* found that 44% of leisure renters use the Internet to book the rental, up 8%. Among business renters, 39% check the Web, up 9%. In addition, 25% of business and 30% of leisure renters went to a rental company's Website to make the reservation.

According to ComScore Networks, consumers spent $9.1 billion on travel in the first quarter of 2003, up 31% versus the first quarter of 2002, tracking over $36 billion for the year. The percentage increase is less than half of that for the previous two-year comparison, which was 81%.

Car rental holds the third position in percentage share of online travel spending, accounting for $940 million in the first quarter of 2003. At 32%, rental also holds the second position for percentage change versus 2002. The Internet revenue channel for car rental in 2003 is tracking to be $3.76 billion.

The Internet has opened a floodgate of opportunity for car rental companies, removing barriers to customer acquisition and simplifying the purchase process. At the same time, technology has introduced new reasons to keep industry leaders up at night. For some operators, worries stem from the need to manage a large infrastructure. For many small companies, differentiation is a challenge.

*Alamo launched QuickRent service two years ago. Automated check-in slashes time spent in line.*

There's mounting pressure to keep rates low. Consumers are more educated about car rental pricing among competitors. Consumers are more value-conscious.

"Loyalty programs are not enough," observes Thio Koslowski, an automotive analyst at research firm Gartner. "They'll have to create something new to convince consumers to go with them. This is an opportunity to leverage technology to do a better job of integrating the rental process."

Simply put, rent-a-car companies must focus on user interaction, both online and offline.

## Diminishing Returns on Brand Awareness

There's no question that the Internet will continue to make car rental more of a commodity in the eyes of the public. Essentially, in today's market, brand is not as significant to consumers as it was five or 10 years ago. Renters are increasingly more sophisticated. They can get almost any information and access any rental company through the Internet, whether through hardwire or wireless connections.

Reservation agents essentially sound the same. Home pages look similar. The rental fulfillment is essentially the same, whether a fast-track or counter rental. The return process is also the same. The customer experience, touted as the formula for business success, is less distinct.

The greater the transparency, the less differentiation there is among rental companies and product offerings. The role of customer loyalty diminishes in such a market.

As a result, there's a growing trend toward brand becoming more price sensitive.

Sandy Rogers, senior vice president of corporate strategy at Enterprise Rent-A-Car, offers a different perspective.

*In select markets, Avis offers customers two navigation system options: Avis Assist (right) and Avis Satellite Guidance (above).*

"Transparency makes it easier to see that Enterprise offers the best value," Rogers says.

Transparency does have an impact on differentiation. Whether that impact is substantive, whether rental companies can leverage it, and whether consumers will respond are the more critical questions. Differentiation is subtle at the top half of the industry and diffused throughout the upstream and downstream of the rental process.

The more that differentiation becomes a challenge, the greater the need to reevaluate past strategies. Technology itself won't provide easy answers to this dilemma. Technology is essentially the same for everyone, and it is used in similar systems and processes. If anything, technology is driving transparency and uniformity.

## Doors Open for Next-Tier Companies

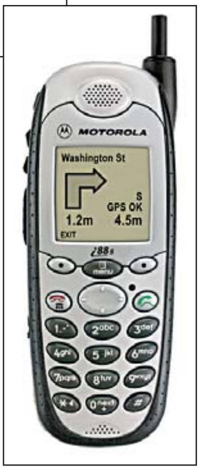
The Internet has created more opportunities for next-tier companies to attract new and returning customers.

"At Dollar, more than 50% of reservations come from Dollar's Website and aggregators," says Charlie Coniglio, staff vice president of marketing for Dollar Rent A Car.

Michael Harley, president of the Avalon Group, Payless' parent company, says Internet bookings at Payless have climbed to 72% of all reservations.

Brian Carpenter, vice president of sales, marketing and advertising for Thrifty Car Rental, says 55% of Thrifty's transactions come through the Web.

The market shrunk during the recession and is slowly inching back. The number of renters has not increased, but rather decreased since before 9/11. More customers are turning to the Internet to book travel, and more of them are renting from next-tier companies.




The Internet has so empowered the consumer that the industry could see a reduction in the number of "big contracts," excluding replacement for now, of course. Avis and Hertz may lose market share, as Enterprise expands into airport markets and, along with companies such as DTG and Payless, increases share in Internet reservations.

But operators with a high volume of Web reservations can't take customer retention for granted. In the world of e-commerce, success can be fleeting. The power of the Internet gives new meaning to "easy come, easy go."

The industry is also experiencing shifts in segment share. More business travelers are crossing the line and renting from leisure rental companies. In turn, more leisure renters are moving to regional and local providers. What's driving this migration? Value, price and service.

The power of the Internet has also spurred downsizing of call centers and growth of multi-channel centers. Most recently, Thrifty closed one of its call centers in Oklahoma. Cendant consolidated its centers after the Budget acquisition.

"There will always be 1-800 reservations," says Bob Dupont, vice president of reservations for DTG, "but we'll see growth in the number of Web agents." Customers can make reservations online and, if necessary, have a real-time online chat with an agent.

In the future, more independent operators will decide to join franchise systems. Smaller companies will realize that alone, they lack the necessary technology and resources to gain e-commerce access.

Smaller operators need alternative solutions such as third-party vendors that can offer ASP models, says Gartner's Koslowski. However, independents can at least improve their chances by participating in a different kind of aggregation.

Bluebird Auto Rental Systems has developed www.carrentalclub.com for its clients. The service provides a powerful opportunity for small and independent car rental companies without resources to access the exploding market of Internet reservations. With free membership, the site boasts 500,000 rentals per month. With three-day average rentals at a $30 daily dollar average, that represents $45 million per month.

TSD Rental Management Software's Weblink (www.tsd-inc.com) lets any rental company launch a Website reservation center with full-service rate and booking options. TSD also offers EDiCAR, which provides for electronic authorization and billing to reach insurance companies.

Such services will help independents compete in the marketplace until they can update their own Web capabilities. Ultimately, the goal must be to provide customers what they've come to expect: a Web page with drop-down menus, giving renters the information they want, when they want it, from a central database. Independents that refuse to integrate technology and pursue a niche Web strategy are risking the viability of their business.

## Using Technology to Simplify the Rental Process

Technology and the Internet have also improved customer service, enabling renters to get the information they want in an instant.

Automated check-in slashes time spent

waiting in line. Airlines are using it with increasing success. Alamo launched QuickRent service two years ago, letting customers with Internet reservations complete the transaction at a kiosk and bypass the front counter. The more dependent a rental company is on incremental revenue, the less receptive it will be to kiosk check-in solutions. However, some current technology engages the customer in an incremental revenue dialogue. Thus, revenue opportunities are not completely lost.

In 2001, Dollar launched wireless service accessibility of its Website for customers using Internet-ready cell phones and PDAs. More RACs are turning to GPS technology to help customers navigate their way through unfamiliar streets and highways. Check-in scanners speed up return lines.

Avis is so focused on customer service that the company refers to a new channel: "service-oriented Web services."

Rogers says Enterprise is redesigning its branch rental system to be much more user-friendly. "If it's easier for our employees, they will have even more time to take care of customers," he notes.

Every company wants to use technology to strengthen the customer relationship. Developing a customer-centric strategy — using technology to improve the customer experience — is critical to success in the future.

Dupont at DTG points out that everyone wants good service. "How we apply technology to achieve it is the key," he says.

Voice recognition software is also leading improvement in customer service, particularly because some programs are intelligent solutions. In other words, they learn and self-improve. Dupont says 30% to 35% of calls for DTG are rate shoppers — a group that voice recognition technology can handle easily and cost effectively. These callers have a better experience because they don't wait for the next agent. The company gets a better return on both staffing and technology.

The Web and technology are also changing how the industry trains staff. ASP models of e-learning can be of great value for independents that need to improve the quality of training at lower costs. The most successful training models blend e-learning with more traditional classroom or one-on-one approaches.

Ultimately, personnel will determine which companies emerge with a competitive or strategic advantage in this changing market. "Performance depends on having the right people in the right position doing the right things, says Ziad Khoury, president of the Khoury Group, a leading industry consulting firm.

## The Challenge of Systems Integration

To keep pace with all this change, car rental companies have learned the importance of reinventing the way they operate. Some already have advanced applications with a scalable platform to support growing demand.

*Companies will require a more integrated solution that promotes business growth and lets them focus more on serving their customers.*

With its systems approach, Avis is the poster child of integration. The company's customers can check cars in and out on the lot with the Rover system. Avis just introduced a newly improved WOW (Wizard on Wheels) system that allows customers to check out on the Avis bus without going to the counter. WOW uses Web services and is built on Avis' B2X (Business to All) services-oriented architecture.

As John Turato, vice president of IT at Cendant Car Rental Group, observes: "All roads lead to Wizard, Cendant's car rental system."

Avis has a cultured focus. The company is not hung up on what it is, but on what it is going to become. A big part of the future is Avis' attention to services. For example, Avis uses the OpenTravel Alliance (OTA) XML specification as the format for a growing number of reservation service transactions. Avis was a founding member of the OTA and continues to participate in defining the future of travel.

Another industry trend is a move toward centralizing the IT structure. This will help simplify the overall operational process. Businesses need to share customer data across multiple channels. Companies will require a more integrated solution that promotes business growth and lets them focus more on serving their customers.

The downside is that such infrastructures require financial backing, ongoing management and adequate resources. This is a tall order for many independents.

Business success will require more than just building an infrastructure to support e-commerce. Success will depend on company Websites being found. Car rental companies have embraced the exposure that e-commerce provides. They must find as well as attract and retain Website visitors.

Because nearly 85% of Web users rely on search engines like Yahoo or MSN to find a product or service on the Internet, Websites must be easily located by such services. A successful Website needs to be "efficient, convenient, intuitive, personalized and customizable," says Scott Deaver, executive vice president of marketing at Cendant Car Rental, which includes both Avis and Budget.

At the same time, the customer's Web experience should be consistent with the brand position, says Tony Miller, vice chairman at McCann-Erickson WorldGroup.

More and more boundaries are fading away as the Internet continues to touch every facet of our lives. So what's the secret formula for growth and profitability in the new World Web Order? Is it customer service? Is it the technology? Is it the people, the systems or the strategy?

It's all of the above. ■

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