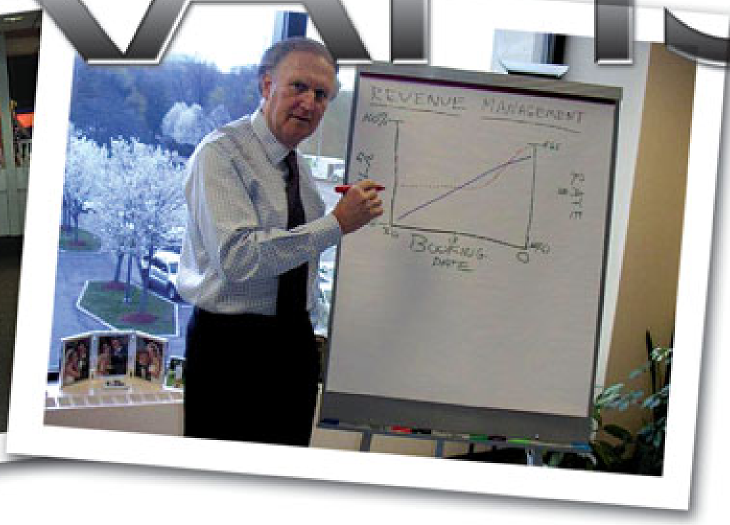
ABRAMS



It's been 25 years since Neil Abrams opened his consultancy. The industry vet takes stock of the auto rental landscape through the years, and shares his own successes and challenges as well as what it takes to have a successful car rental business.

By Chris Brown

For those in the car rental industry, the question is not whether you've heard of Neil Abrams, but when and how often you've interacted with him.

Abrams has made the car rental industry his business since 1976, and has operated his consultancy, Abrams Consulting Group, for the last 25 years.

He delivered the keynote address at the 2004 Car Rental Show and has spoken at many other U.S. and international travel industry conferences. He's been involved with, and overseen the industry association as it morphed from ACRA, to ACTIF and back to ACRA again. He's the media's favorite go-to guy for quotable insights into the car rental industry as well as a frequent contributor to this magazine.

And if you know Abrams, you probably have an opinion of him: spontaneous, ubiquitous, strong-willed, sharp, aggressive, a bulldog, a wealth of contacts, stories, facts and figures. Whatever you might think, those are positive qualities to his clients.

Abrams sat down with ARN on his silver anniversary to take stock of the auto rental landscape through the years, and shares his own successes and challenges as well as what it takes to have a successful car rental business.

The Franchise Era

After an MBA in industrial relations and marketing and a brief career in banking, Abrams joined Hertz in 1976 in its labor relations division.

"I was constantly on the road," Abrams says. "You had to be where the people were and where the contracts and labor issues were generating."

When working with management and employees, Abrams made a point to learn the key functions of the car rental business. He learned the fleeting process, how to rent cars, the functions of the service attendant and even how to drive courtesy vans.

In the mid-Seventies, Hertz, Avis and National held 90 percent of the market. They were owned by large conglomerates with disparate holdings such as RCA, ITT/Sheraton and Household Finance. At that time, corporations could take advantage of a provision in the investment tax credit, which gave significant tax breaks to those that owned a depreciating asset such as a car.

By the turn of the decade the country was exiting a recession and the free market advocacy of the Reagan Era was taking hold. Entrepreneurial former employees from Hertz, Avis and National were opening franchises and independent rental companies.

Celebrates SILVER

Abrams says Hertz, like many franchisors, didn't provide extensive support services to its franchisees with regard to labor issues, management structure, compensation, training and development as well as operational and strategic matters. Abrams started to receive calls for advice.

Hanging a Shingle

There was business to be had, so Abrams struck out on his own as a self-employed consultant working from a sublet office on Park Avenue in Manhattan on May 2, 1982.

"It was with a hope and a prayer and a working capital loan that was good enough for six months," he says. "I said to my wife we'll give this six months and if it doesn't hit, I'll have to go back and get a job."

In his first month he landed some Hertz franchisees as clients. Then Budget, Dollar and Thrifty licensees came aboard.

The business was off and running. Abrams consulted on all facets of car rental for franchisees, independent agencies and new regional start-ups. He was learning on the job and how to be resourceful in getting answers for clients.

Abrams tapped resources in parallel industries such as lodging and transportation that had similar revenue management, customer service and technology issues. He brought those solutions to car rental. "I understood how they solved business problems," says Abrams, "you become a sponge."

By the early- to mid-Eighties, car rental licensees of some of the major brands controlled large rental markets such as south Florida, Baltimore/Washington, New Orleans, and southern California.

Their power was an outgrowth of companies looking to expand but without the capital to open corporate locations. Franchising, in the early years of the industry's evolution, was a way for rental brands to quickly have a presence in Wichita as well as Miami.

However, corporations began to buy back franchise operations to dilute the increasing control of the multi-franchise owners, to better control their brands by creating more seamless systems and to take advantage of the economy of scale on large procurement fleet deals.

That dried up much of Abrams' client-base. "Once they pulled these licensees back under the corporate umbrella, they didn't feel they needed us anymore," says Abrams. "So I started to read the tea leaves and look out over the horizon to see where the industry was moving."

Change with the Times

Abrams needed to start chasing new markets and opportunities.

As he had continually been fielding inquiries for research, he realized that the data his company housed would be of use not only in the car rental sector, but to other businesses in the travel and transportation industries as well. Abrams took his brand and marketed it as an integrated travel consulting and research practice, and thus Abrams Travel Data Services became an independent market research division.

He took stock of the car rental industry in Europe, and then Asia and South America–markets more than a few years behind the U.S.

He partnered with a tech guru to create Abrams Technology Advisory Services, based in Europe, and formed a mirror company, AdlerAbramsAdvisors, which performs consulting and research services within the commercial fleet leasing industry. Abrams works with vendors and suppliers to evaluate product offerings and make them "rental ready." His firm has worked with advertising agencies and marketing companies to help them gain car rental accounts and develop strategic development programs.

Abrams has also been able to leverage the foundation of his consulting and research practice for other industries, such as manufacturing and building supply distribution.

U.S AUTO RENTAL INDUSTRY SNAPSHOT

COMPANY	# OF CARS	REVENUE
1982		millions
Hertz	122,000	662
Avis	96,000	520
National	78,000	410
Budget	71,000	360
Dollar	37,000	200
American Int'l	15,000	80
Thrifty	13,000	55
TOTAL	**462,000**	**2,377**
1990		
Hertz	205,000	2.667B
Avis	190,000	1.205B
Budget	125,000	1.3B
National	125,000	920
Enterprise	80,000	600
Alamo	80,000	630
Dollar	50,000	396
Agency	42.000	140
Thrifty	30,000	261
American Int'l	18,000	171
TOTAL	**958,281**	**8.039B**
1999		
Enterprise	399,941	3.8B
Hertz	280,500	3.7B
Avis	210,000	2.5B
Alamo	150,000	
Budget	146,000	1.8B
National	140,000	
Dollar	70,000	840
FRCS (Ford)	48,000	
Thrifty	46,000	511
CarTemps USA	38,000	
TOTAL	**1,733,391**	**18.3B**
2006		
Enterprise	360,066	7B
Hertz	290,000	3.9B
Vanguard	208,400	2.14B
Avis	190,755	2.75B
Budget	134,225	1.4B
Dollar Thrifty	85,000	1.394B
Advantage	17,000	150
U-Save	11,500	95
Rent-A-Wreck	6,700	66
ACE Rent A Car	11,500	101
TOTAL	**1,683,416**	**20.08B**

Create Your Niche

Abrams' philosophy, and his challenge, is to create a unique identity for his rental clients.

He prods companies to challenge their business models by examining new products and services, incremental revenue streams and distribution channels, as well as untapped market potential.

Success: Enterprise, Alamo

Independents and startups can look to two large-scale car rental success stories for manifestations of his credo.

Enterprise and Alamo built market share with their unique business models. Both were filling a void that the major companies had largely abandoned at the corporate level, Abrams says.

Enterprise had the vision to connect to large rental reservations suppliers such as insurance companies.

From a "blip on the radar" when Abrams started consulting in 1982, Enterprise has grown exponentially into the biggest car rental company in the world. "They're the closest thing to the Starbucks model I've seen in the travel and transportation industry, which is one on almost every corner."

Alamo filled the vacuum for the leisure traveler while Hertz, Avis and National were busy chasing more lucrative corporate business. The infrequent leisure traveler was viewed as unsophisticated and un-loyal: "The catfish of the travel consumer and a pain in the butt," Abrams says.

However Mike Egan, the founder of Alamo, was in the travel packaging business. Understanding that the airlines' customers were also rental customers, Egan created the pre-sold, pre-packaged, fly-drive partner deal for leisure customers.

Alamo grew until 1997, when Egan sold the business to H. Wayne Huizenga's Republic Industries, which became AutoNation, the mega new and used car auto dealer. Huizenga, Florida sports mogul and founder of Blockbuster Video, brought together the National and Alamo brands.

At the time Huizenga was growing AutoNation, the first nationwide auto dealership and the first to go public through the dealerships.

That model fell apart. AutoNation spun off National and Alamo into ANC, which filed for bankruptcy in 2001 and reorganized two years later under a private equity deal as Vanguard Car Rental Group.

Before bankruptcy, Alamo decided to shutter its off-airport locations. "One might argue from a long-term strategic standpoint that it was ill-advised," says Abrams. "Although clearly, dramatic actions needed to be taken to shore up the company."

Now, perhaps ironically, the Enterprise/Vanguard merger unites those two innovators along with National, a storied brand, to cover both airport and neighborhood markets.

Four companies now control the eight major brands. Though Abrams thought consolidation might have been over, the merger makes sense. "If fleet represents the largest expense, then optimizing return on investment in fleet serving brands represents enormous opportunities," he says. Other synergies and cost savings opportunities also exist.

The brands can keep their unique selling propositions on the front end, while consolidating costs on the back end for IT, labor and human resources, as well as fleet.

It seems the market has swung back to 1976 in terms of major player dominance.

Local Success Stories

If you're an independent, don't try and compete with Enterprise head-to-head solely on the basis of price, Abrams says. Local companies need to offer a value proposition above and beyond price that Enterprise doesn't.

FLEET REGISTRATIONS

1976 TOTAL	
1. Chevrolet Chevelle	70,420
2. Ford	61,839
3. Ford Granada	60,169
4. Olds Cutlass	59,825
1982 TOTAL	
1. Olds Cutlass	72,420
2.Plymouth Reliant	49,832
3. Chevrolet Citation	49,627
4. Buick Regal	46,877
1990 TOTAL	
1. Ford Taurus	130,420
2.Ford Tempo	85,571
3. Chevrolet Lumina	82,698
4. Chevrolet Corsica	66,037
1999 RENTAL	
1. Ford Taurus	102,970
2.Chevrolet Cavalier	72,295
3. Pontiac Grand Am	64,302
4. Ford Contour	49,739
2005 RENTAL	
1. Ford Taurus	122,561
2.Chevrolet Impala	96,054
3. Chevrolet Malibu	84,0432
4. Chevrolet trailblazer	59,996

Abrams uses as an example a 15-year-old independent company with a few locations that hadn't seen growth in seven years.

The owner operates in a market with a fairly large gay community, Abrams says. In general this demographic spends money, is willing to pay for good service, and treats the vehicles right. And they're loyal to businesses that cater to them as a group and respect the importance of their business.

Abrams focused marketing dollars on that community with programs and discounts in local gay publications and newsletters. He allied the company with a gay tour group. The business exploded.

Another stagnant client in northern New Jersey needed to re-brand itself. The mindset in this small-town borough is a world away from New York, even though the company is located "a chip shot and a putt" from the Upper West Side of Manhattan, an area with money but not many car owners.

The company name changed to one with more global appeal, and then went after the Manhattan business. The company was positioned as a less expensive alternative to the in-town brands, yet offered the convenience of delivering the car.

In another instance, a client in the Northeast rented cars out of his dealership.

The rentals were limited to the dealership's loaners and insurance replacements. Abrams worked with the owner to disassociate the car rental operation from the dealership. They moved the operation into a storage building on the dealer lot but facing the street. They changed the name to one representative of the area. As a standalone, independent and "homegrown" company, they could now go after other dealer's replacement business as well as market to local hotels, tours, schools and churches.

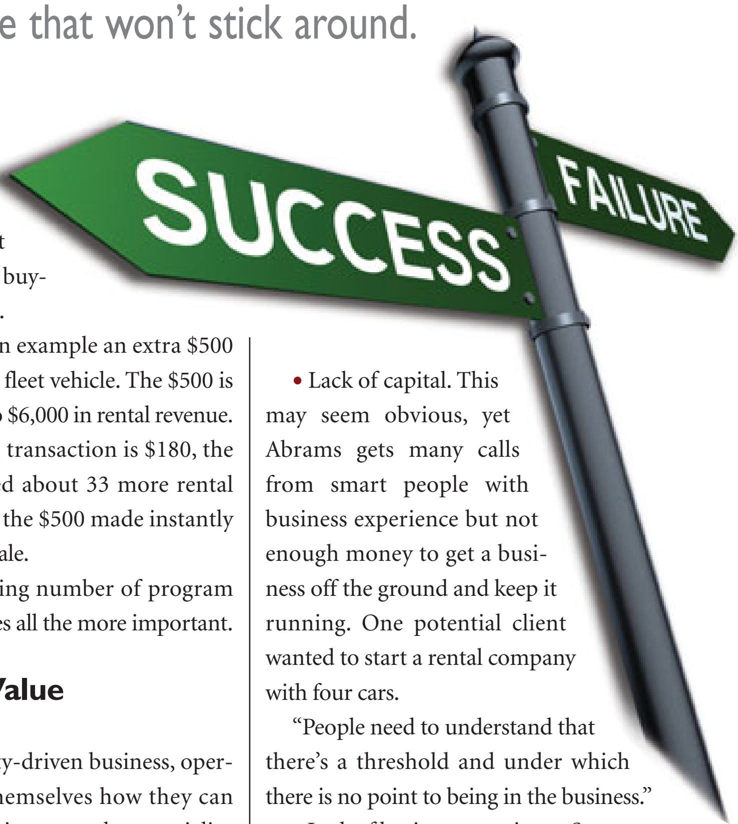
No Credit, No Blame

But changing the plan is only the first step. "It's about drilling that message through your conduct of business and management team," Abrams says. "

Abrams says that as a consulting firm, his job is to give his best advice and expertise to help guide the company for the task they've hired him for. "We will never take credit for the success, or the blame for the failure."

PATHS TO PROFIT

Neil Abrams has seen auto rental companies come and go in his 25 years as an industry consultant. Abrams shares insights into the makings of a profitable rental company and the warning signs for those that won't stick around.



Neil Abrams has seen his share of auto rental companies succeed and fail over the years. What makes for a strong company?

Be First on the Beach

Understand that the industry is an evolving organism. Be the first to realize that and take advantage of new market trends and opportunities.

"You want to be the Marines of the rental industry," he says. "Be the first one on the beach and control it and let the others fight to take your turf."

"If you're not, the ticket for admission is that much more expensive, because you not only have to build the building and hire the people, you need to spend the money to become competitive in the marketplace as opposed to dominating from the beginning."

Understand Yield Management

How do you squeeze more revenue out of an existing fleet?

The elasticity of pricing in the car rental industry is a daily challenge for an operator. Successful companies have mastered, either manually or technologically, the art of yield management – the art of adjusting prices based on the competitive pricing structure as well as supply and demand on a particular booking date.

An Asset Management Business

Successful companies, Abrams contends, understand that car rental is more than a travel service, it's an asset management business, much like real estate. In addition to profiting from rentals, asset management entails buying and selling smart.

Abrams cites as an example an extra $500 in profit for selling a fleet vehicle. The $500 is roughly equivalent to $6,000 in rental revenue. If the average rental transaction is $180, the operator would need about 33 more rental transactions to reap the $500 made instantly with a smarter fleet sale.

With the decreasing number of program car sales, this becomes all the more important.

The Unique Value Proposition

In this commodity-driven business, operators need to ask themselves how they can make their brand unique: can they specialize in vans or disability-equipped vehicles? Can they position themselves as a green-conscious rental company?

Price is only one consideration. What markets don't they serve? What new products can they offer? What allied services can they affiliate with?

"I don't want to be in a business that is all about price and being the cheapest guy out there."

Recipe fro Failure

Abrams says he fields three or four calls a week from potential clients looking to start a car rental business or increase their existing business. He discourages 90 percent of those calls. Why?

- Lack of capital. This may seem obvious, yet Abrams gets many calls from smart people with business experience but not enough money to get a business off the ground and keep it running. One potential client wanted to start a rental company with four cars.

"People need to understand that there's a threshold and under which there is no point to being in the business."

- Lack of business experience. Some potential clients "have a business and may have money but don't have a realistic understanding of what is required to run a successful rental business."
- Absentee owner or no time to run the business. Abrams cites the potential client that wanted in on the airport business but didn't have the time or drive to treat it like a 24-hour business. "You can't run it by remote control."
- Inability or refusal to challenge their existing business model, afraid of change.

"Don't ever say there's nothing more you can do with your business. Once you've said that you might as well shut your door, take your keys and sell the business as quickly as you can. When you think there's no more to be done, you're finished."