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## To Build A Planet

Payless Car Rental System's Michael J. Harley Is Focused On A World Of High-Tech Innovations

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# To Build A Planet

Payless Car Rental Systems Inc. pins its future growth to its high-tech prowess.

by David J. Wilson

**A** LOW MURMUR OF SOFT VOICES HANGS MIDWAY TO THE CEILING OVER the nondescript second floor office where the Payless Car Rental System customer service staff, wearing headsets, are engaging with would-be car renters from around the world. An American Airlines employee calls from Dallas to rent a compact car in San Diego a few days later, a deal which Erin finalizes within 90 seconds. A woman from the Midwest coming to Tampa doesn't want a sub-compact Geo Metro. "They're too much like a tin can," she says. "I'm going to be driving on the highways." She opts for a mid-sized Ford Contour.

Some callers know precisely what they want. Others don't. A

photograph by Alex McKnight



woman inquiring about an Orlando rental isn't sure of the length or dates of her vacation, apparently unaware that for a car rental rate quote, such information is vital. Another wants to rent a car in Orlando and leave it in Fort Lauderdale, but Payless can't do that, because it has no Fort Lauderdale location. And a frequent Payless renter going to New York's JFK International Airport complains "Why are you doing that to me?" when told that among New York-area airports, Payless is represented only at Newark, N.J.

Seven days a week, 24 hours a day, Payless Car Rental System Inc. serves the car renting public from its 34th St. North world headquarters in St. Petersburg. During its long history – it celebrates its 30th anniversary in July – Payless has not only followed the bumpy road of the car rental business, it slipped into potholes of its own making. Between 1992 and 1998 it dropped to about 70 locations. But three years later, its ambitious, hard-driving chief operating officer, Michael J. Harley, sees a prosperous future, one that likely wouldn't have been possible without the technological developments of the last several years. It is now at about 140 locations and expanding "every day," he says.

"The company's mission is to go to 500 locations and develop this into a \$250 million company," he says, confidently. "Right now we're on target to go around \$60 million this year." Payless is the only established car rental company with major growth potential, Harley argues, because the big names – Hertz, Avis, Dollar, Alamo, Enterprise – are already in the most desirable locations.

## Room to grow

"Payless Car Rental is really the only one that's left as a franchise organization. That's just a fact. No matter where you go, you're going to find a major there, but we may not be there. That's where our opportunity is." Payless, Harley told the trade magazine *Auto Rental News*, is going to be the "low-cost, hassle-free alternative car rental company for both leisure and business travelers.... We are strategically posi-

**"We are strategically positioning the Payless system to be recognized as the best-valued car rental company in the world.**

*– Michael J. Harley, chief operating officer, Payless Car Rental System Inc.*

tioning the Payless system to be recognized as the best-valued car rental company in the world." And Harley takes pains to point out that all the IT development and every

## A Name to Click On

The company's name hasn't changed, but Payless Car Rental System Inc. COO Michael J. Harley likes it far better now than he did in the 1980s.

"I never liked the name Payless," says Harley, who had worked for the company from 1983 through 1992, beginning as reservations manager and leaving as a vice president. "It seemed to define cheapness. It was embarrassing to go to trade shows and have Payless on your banner."

How times have changed.

Harley's face lights up now when he talks about how fortunate his car rental company is to have trademarked so many Payless names. He credits technology and the resultant commoditizing of just about everything you can put a price on.

"With Internet marketing, where price is such a powerful incentive, a name like Payless might work after all," he recalls thinking as he decided to rejoin the company in 1998. "When you see a banner pop up that says 'Payless,' well, why not click on it and see if you can get a good deal?"

As with so many other products, from airline tickets to books, the Internet has taken the mystery out of pricing. Consumers now have the tools to compare costs quickly and efficiently, and costs drive customers as never before. "Internet bookings are more and more important," Harley says. Industry trade publication *Auto Rental News* reports that 34 percent of the car rental business is happening over the Internet.

Harley says that, just as a defensive measure, Payless has reserved more than 200 domain names, just as it has trademarked Payless Lodging, Payless Parking, Payless Car Sales....

*– D.J. Wilson*

other aspect of the Payless growth effort has been financed through cash flow, not by going into debt.

Harley sees a multi-faceted growth pattern emerging, most of it based on the technology Payless has developed over the

past two years. Look forward to Payless Lodging, Payless Car Sales (there's already one on 34th Street North in Pinellas Park), Payless Parking, and that's just the visible side of Harley's plan.

Having studied projected tourism rates from various countries to the U.S. for the next several years, Harley says the company is poised to ride the e-commerce phenomenon into the future, stamping the Payless brand on relevant segments of the



leisure travel industry. It's the grand vision of a determined entrepreneur, nothing less than what he calls Planet Payless.

It's a huge challenge, but one Harley took on with his eyes wide open. He's been the company's chief operating officer since 1998, but his Payless history reaches back into its checkered history.

The company was founded by Les and Dusty Netterstrom in 1971 in Spokane, Wash., and over the next 11 years grew to more than 100 locations. To expand further, it bought the American operations of Canada's Holiday Rent-A-Car System, and operated as

**Payless sees major advantages in maintaining high-profile links to Internet travel services such as Travelocity.com, Expedia.com and MSN.com.**

Holiday-Payless Rent-A-Car until 1987. At that point, Harley says, "we had more than 200 locations and were doing \$25 to \$30 million in annual sales." In 1985, the Netterstroms had moved the company's headquarters to Gulfport, and in 1987 sold off its Holiday operations to Thrifty, losing about 100 locations in the process. In 1989, as part of the great wave of Asian buyouts of American companies, a company called the Taiwanese Group bought Payless from the Netterstroms, and a year later moved to its current headquarters location. It operates today under the same Taiwanese ownership. The headquarters office employs about 75.

Harley's complex history with the company dates from 1983, when he was hired as reservations manager. He later became automation manager.

"The company grew about three-fold in that time," he says, "and reservations grew from about 1,500 a month to more than 20,000." By 1988 Harley was a company vice president, and after the Taiwanese Group purchased the company he was made senior vice president.

"Our locations were increasing to about 120 then," he recalls, and revenues went back to around \$45 million." When he resigned in 1992, the car rental industry was already in the doldrums. Poor economic times are never good for discretionary spending. In addition, the car manufacturers instituted a buyback program to stop the car rental companies from flooding the market with good used cars.

Readers may remember that most car rental companies had thriving used auto sales operations in the late 1980s and early 1990s. It was a good revenue source. "But these lots were hurting the big car sales guys," Harley says, "so the manufacturers came up with the buyback program, which means the car is returned to the manufacturer" after its rental life is over. "Now they've gotten rid of the buyback program, so you can see car rental used car lots spring up. We've got one just up the street."

### **Internet speed**

While Payless foundered in the mid-'90s, Harley wasn't part of the picture. By 1993 he was working for American Express Company, then moved to a company called Visitors Services International,

**"Search engines are constantly changing their criteria. We work on this all the time. Our people know how to work the system," says Payless COO Michael J. Harley, explaining why Payless Car Rental so often appears high on the results list after an online search.**

al, a destination marketing company that went public in 1996. While he was running a Clearwater agency called Destiny Travel in 1998, Payless hired him back as a consultant. It wasn't long before he was

chief operating officer. He knew the challenge when he accepted the position. He found the company was still running the same reservation system he had set up in the 1980s.

"My interest in coming back was the Internet," he says. "That's where the future of the company lies." Over the last two years Payless has been dragged into the world of high technology. With an information technology staff in place, its reservations system has been reinvented and its programs modernized. High-profile links to Internet travel services such as Travelocity.com and Expedia.com and MSN.com were instituted, positions bought, and insider ploys keep Payless at or near the top of online search engine results pages. A search for "car rental" on MSN.com brings up several choices, but right underneath the search window, Payless Car Rental appears. "We bought that position," Harley says.

Playing the Internet game is now part of the car rental business. You want your company to come up high in the listings. You have to work at it daily. Online hunters for information don't want to make too many clicks of the mouse to find their target, so the more prominent you are, the better.

"Search engines are constantly changing their criteria for which sites come up most prominently. We work on this all the time. Our people know how to work the system," Harley says, declining to elaborate on the technicalities. "Let's

say we go to a lot of seminar sessions where they teach you about dealing with search engines."

Harley says he has been inspired by Microsoft founder Bill Gates' book,



*Business at the Speed of Thought* (Warner Books, May 2000. Paperback, \$16.95) to keep speed of operation a Payless priority. It means not only continuous productivity increases for the company and a selling tool for franchisees, but also is necessary for maintaining customers as we lose patience when it takes even a few seconds for informa-

tion to appear in response to our online actions. or facilitate one-way rentals. Harley says it sometimes prevents Payless from taking advantage of singular events, such as the Super Bowl. Nevertheless, he says, "it really hasn't been a factor in our business. One-way drops are about 10 percent of the car rental business, so the percentage is pretty small."

Payless is more a leisure rental com-

## Last year Payless added more than 50 new locations around the world, including 10 in the United Kingdom, 13 in France, 8 in Mexico and two in Hungary.

pany than a business car provider, he says (75 percent leisure, 15 percent small business and the rest government or association business), and leisure rentals tend to return to their pickup point because most holiday-makers fly in and out of the same airport. The Payless car mix – it currently has a fleet of about 12,000 – is also geared to the leisure market, with about 20 percent economy, 30 percent compact, 25 percent intermediate, and the remaining 25 percent a mixture of minivans and specialty vehicles.

But Payless is a franchise company, and even if it does open up company stores, it will still be a franchise firm. To that end, Harley has worked feverishly to double the number of locations since he took over. Last year Payless added more than 50 around the world, with 10 new locations in the United Kingdom, 13 in France, two in Hungary (one in downtown Budapest, another at the city's Ferighezy Airport), eight in Mexico, and others dotted from Managua, Nicaragua, to Salt Lake City. In addition to its U.S. locations, Payless is also in Egypt, Jordan, Ireland, Greece and Guam, among other countries around the world.

### Franchise growth

Take franchising, for example. Payless has always been a franchise company. There are no corporate stores, at least not yet, though Harley promises "a couple within a year." It is highly regarded as a franchiser, having been ranked No. 1 in the car rentals category by *Success* magazine in October. The publication awarded Payless its Franchise Gold award, with rankings determined by financial performance, corporate management, growth and stability, franchiser/franchisee relationship and opportunities for growth. Of 200 awards in every conceivable category, Payless ranked 19th.

But Harley acknowledges some difficulties competing with non-franchise companies, as evidenced by would-be customers unable to rent Payless cars before one-way rentals are seldom allowed (even if there are Payless franchises in both pick-up and drop-off locations, it takes an agreement between the two franchisees to allow one-way rentals, because the car belongs solely to the franchisee at the pick-up location). Companies such as Hertz or Alamo, with their corporate stores, can more easily shift cars around

### Brand advantage

"Everything we show potential franchisees tends to sell itself," Harley says. "Brand is important. Just think about renting from a no-name rental car firm compared to a national or international brand like Payless. There's no comparison." Harley credits the relatively fast pace at which Payless is establishing new locations around the world to that simple concept. But there is more.

"We also have a fleet program with Ford Motor Company, a very good program. But we're also going to get into leasing this year. If a franchisee comes to us and says, 'We're running 500 cars, but if we only had another 100 we could really do well ...,' we're [telling them] that we're going to get into that part of the business. We've never done that."

In addition, there is a potential insurance advantage for the franchisee. "We're coming up with a system-wide insurance program for the cars. Say you're an independent rent-a-car company and you go to your friendly insurance agent and he insures your 300 cars. What's the difference going to be when we as Payless go to an insurer for a quote on 10,000 cars?"

Even new developments at airports around the country may favor the Payless approach, Harley says.

The larger airports are beginning to develop high-rise, off-terminal car rental buildings to house all the agencies. Before too many years have passed, Harley predicts, there will be no in-terminal counterspaces. Instead, all the rental companies will be housed in a separate building.

"There once was an ad that said, 'Everyone Rides the Bus.' Well, it's a fact today that when you go into most airport, you're going to ride a bus. When the new concept is complete, everyone will be riding one. Who cares where they drop you off as long as they drop you off in a safe area where they're renting new cars?"

Harley expects well-positioned Payless counters in these new build-



ings will help boost business right along with the attraction of the company name.

## Lodging and cars

Harley also sees major growth possibilities in developing branded Payless Lodging ([www.PaylessLodging.com](http://www.PaylessLodging.com)), a concept already being put into effect.

And Payless Car Sales will also become a profit center, Harley predicts. For disposing of cars after their rental life is over, "auctions can give you decent returns, but if times are good, you're going to make more on the car lot. You don't have to pay delivery and all those fees." Payless hired Bobby Smith of Manatee Car

Sales to try out the concept. "He did a bang-up business selling more cars under our logo than he had under Manatee Car Sales. Think about it, as a prospective buyer. You stop where you see a familiar brand compared to stopping at a no-name lot."

But the core business of Payless is still car rentals, and in the Intelecenter the phones are still lighting up with "call waiting" signals for the customer service operators.

At Erin's station, a man is planning an August journey to Alaska, including a drive from Fairbanks to Anchorage through Dinali National Park, a one-way drop-off that, because of franchise agreements, Payless can

accommodate, though the charge is steep. He decides to settle for renting in Anchorage and returning the vehicle there, saving about \$160.

In his nearby office, Harley is getting ready to leave the office to fly off to yet another possible franchise site, another independent who may be persuaded that renting cars under the Payless brand is preferable to his own.

Payless grows one agency at a time, but Harley is smiling as he says it will all be worth it when the total reaches 500 four years from now.

It takes a lot of effort to build a planet. ®



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