

Technology-Savvy Payless Shifts into Growth Mode

With Mike Harley at the helm, the company opens new stores domestically and abroad and invests in computer systems to aid direct-to-customer e-commerce.

By Cathy Stephens



Mike Harley, Payless Car Rental System president and COO, was recently named president of parent company Avalon Global Group.

At a time when many car rental companies are consumed with the here and now, struggling to curb costs and simply stay in the black, Payless Car Rental System is taking a more long-term view. Led by President and COO Mike Harley, the company has embraced an aggressive expansion strategy in the past year, opening new operations in cities as diverse as Nashville, Tenn., and Beirut, Lebanon.

Avalon Global Group, the parent company of Payless Car Rental, also recently named Harley president of Avalon — a solid endorsement of his growth-through-technology approach to business. But the move shouldn't surprise anyone. Under Harley's leadership, Payless has thrived.

In the company's 2001 fiscal year, which ended June 30, Payless and its subsidiaries posted \$7.2 million in revenue, representing a 22% increase over the previous year. Net income before taxes was \$1.1 million — a 100% jump over fiscal year 2000.

"This tremendous increase can be attributed to a growth in locations and continuing market penetration," says Richard L. Stevens, chief financial officer for Payless Car Rental.

Based in St. Petersburg, Fla., Payless has more than 125 franchise locations worldwide, including operations at 33 U.S. airports. Last year, the company opened locations in such major U.S. markets as Miami, Chicago and Detroit. But about 40% of all Payless stores are international — in a broad range of nations including, to name just a few, Greece, Hungary, Poland, Jordan, Egypt, Nicaragua and Mexico.

"Right now, Payless Car Rental is very focused," Harley says. "We're focused on brand marketing and on making our franchisees money. And we're going to continue to grow in the global marketplace because that's what the Internet calls for and we're starting to see a lot of traffic come from these different markets."

In Puerto Rico alone, Payless has 16 locations. "We're the largest car rental company in Puerto Rico, running 1,000 cars there," Harley says. →



Payless Car Rental CFO Rick Stevens also serves as president of Holiday Rent-A-Car Reservation System.

The promise of e-commerce figures prominently in all of Payless' plans for the future. The company may be considered a second-tier player in the industry, but it certainly isn't taking its cues from bigger competitors. Instead, Harley looks to innovators in the computer world for inspiration — people like Intel CEO Andy Grove and Dell Computer founder and CEO Michael Dell.

Dell pioneered the PC direct-selling model, cutting out the middleman — the retail store — and creating a direct link to customers. This is the distribution model that Harley points to when discussing Payless' e-commerce strategy. In the case of car rental, the intermediaries are travel agencies, global distribution systems and third-party Web sites.

To foster direct-to-customer e-commerce, the company has invested heavily in its Web site and the computer infrastructure at its headquarters. Dismissing legacy systems as "dinosaurs," Harley has opted for an Oracle platform and IBM hardware.

"Sixty percent of our business today is Internet driven," Harley says. "That speaks for itself. And our brand name helps. Payless has the perfect name for the Internet. No one goes on the Internet to spend more — they're looking for a bargain."

Though Payless has agreements with Orbitz and Travelocity, the company has focused squarely on bolstering brand aware-

ness of the Payless name and increasing traffic to its own Web site. The strategy, Harley says, is a no-brainer.

"If you were president of Payless, which would you rather do — get a reservation from a quick-through to your own Web site where the cost is \$4, or go through a third party where the cost is as high as \$23? That's the difference and that's why we're not partnering with every Tom, Dick and Harry. The cost of distribution is just too expensive, and we don't have any plans to raise our costs. We only have plans to lower costs."

Payless has also set up Web sites and booking engines for individual franchisees.

ence via a special Web site.

Diversification is also part of Harley's long-term plan for Avalon and Payless Car Rental.

In January, Avalon launched Payless Car Sales, a franchise program for independent used car dealers. In early March, Avalon re-launched Holiday Rent-A-Car Reservation System, a reservations network made available to partnering independent auto rental operators.

"Holiday Rent-A-Car members gain access to innovative technologies, including real-time rate and inventory management and reporting, and to reservation systems that will generate maximum traffic to their location — all at an affordable price," says

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This helps boost the number of times the Payless name pops up when consumers look for car rental using a search engine like those from America Online and MSN. By having their own Web site, franchisees can also offer their own online specials.

"We receive over 5 million hits a month," Harley says.

He predicts that as online access becomes faster and more ubiquitous, more people will turn to the Internet to make their travel arrangements — leisure and corporate travelers alike.

"The corporate market has changed in a very big way, and the Sept. 11 tragedy sped that up tenfold," Harley says. "If a corporation's rate for a compact car is \$35 a day, why would they book that when they can get the same car from the same company on the Internet for \$10 less a day? The second largest controllable expense in most companies is travel/entertainment."

Payless' willingness to invest in new technology also helps keep the lines of communication open between Harley and franchisees. Recently, the company acquired a video-conferencing system that Harley uses for regular meetings. Franchisees can link into the confer-

Stevens, who also serves as the president of Holiday Rent-A-Car.

In May, Avalon will begin running two corporate locations that will feature Payless Car Rental, Payless Car Sales and Payless Parking operations. The sites will serve as showrooms for products and services for new franchise prospects. In addition, training and product testing will be conducted there.

Another Avalon company is REZlink International, which makes the reservation system available to Payless Car Rental franchisees. REZlink's current research and development projects will help shape the future of Payless Car Rental, Harley says.

As e-commerce evolves, car rental companies can't afford to fall back on decades-old business models, he says. Innovation and forward thinking today will help ensure long-term success.

And what's Harley's forecast for the remainder of 2002?

"It's going to be sunny and partly cloudy. An average year — no growth, no losses," he replies. "But I truly believe that 2003 to 2005 are going to be absolutely incredible years for anybody who's well prepared and well positioned." ■