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Capstone Strategic Analysis

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Capstone Strategic Analysis: External Analysis

Overview of Strategic Analysis

The current climate that businesses exist in is highly interconnected. The overall understanding of how seemingly disconnected aspects of business affect even the smallest parts of industries is growing exponentially. When conducting a strategic analysis, it is important to understand and incorporate this concept to ensure that factors that affect significant aspects of businesses are not overlooked. To this end, each section of this analysis will focus on a collection of factors that have a role in shaping all businesses and industries. The external analysis section will focus on the six PESTEL factors that shape the prosperity of industries and businesses. This will include exploration into specifically selected topics within these factors. The industry analysis section will examine the rental car industry, specifically the life cycle stage the industry is in, the structure of the industry, and how Porter's Five Forces affect each aspect of the industry.

Overview of External Analysis

The external analysis of the business environment at all levels is critical to understanding what businesses need to adapt to things outside of their specific purpose and goals. Essentially, by taking a look at the bigger picture, businesses can anticipate and prepare for factors outside of their control and develop models to stay robust when faced with these factors. On the macro level, the key aspects that affect all businesses are the six PESTAL factors. Each of the factors represents an aspect of reality that must be accounted for when understanding how individual businesses interact with each other and the world overall. When continuing the analysis at the

industry level the focus will be on the structure, life cycle, and forces involved in shaping the industry currently.

Macro-Environment Analysis (PESTEL)

When conducting an analysis at the macro level, it is important to understand that nearly all businesses exist in the same environment. It is important to have an in-depth understanding of the major forces at work because when even one of them shifts it can mean major change across nearly every industry. Fundamentally, there are all-encompassing factors that even businesses with vastly different structures and purposes must account for. These factors are abbreviated as PESTEL which stands for political, economic, sociocultural, technological, ecological, and legal. Together these factors influence business at all levels to some extent and comprise the macro environment.

Political Factors

The political factor of the macro environment has always been present in the wider world of business and has grown significantly more prevalent in the past few decades. Growing extremism on both sides of the US political spectrum has led to a greater divide. In an article for The New Yorker, Elizabeth Kolbert attributed this divide in part to the echo chamber effect which is the idea that like-minded people get connected to each other, especially on the internet, and share ideas that they agree with to reaffirm their views instead of getting information from both sides (Kolbert, 2021). The political factor also addresses relationships between countries and how those relationships impact business. For the purpose of this analysis, the political factor focus will be on political relationships with oil-producing countries. The US Energy Information Administration reports 2020 was the first year that the US has been a net petroleum exporter

since at least 1949(USEIA). While this is a step towards energy independence the US is still critically dependent on foreign oil which has had effects on all industries. Having a good relationship with countries that export oil and gas to the US often means lower energy and transportation costs domestically. Energy and logistics affect all businesses regardless of size and scale and when the foreign supply of oil is interrupted the issues can compound quickly. The ways for companies to reduce the impact of political disruptions of foreign oil could include a multiple sourcing strategy for fuel and energy and depending on the size and influence of a company could also include reserves and contracts.

Economic Factors

When it comes to a comprehensive analysis of the macro environment the economic factors are perhaps the most prevalent because they usually have the most direct impact on businesses. The specific economic factor that will be the subject of this analysis is the unemployment rate. The US unemployment rate is currently 3.4% which equates to about 5.7 million people as reported by the Bureau of Labor Statistics. Fortunately, this is lower than the long-term average of 5.73%, meaning that things are moving in a positive direction from a labor resource perspective (U.S. Bureau of Labor Statistics, 2023). What this means for companies, however, is that labor is harder to come to buy and therefore more expensive. Attracting and retaining talented workers has become a priority for many companies in recent years. This trend is subject to change in the future though, meaning that there is still reason for businesses to anticipate higher or lower employment costs in the future. Some of the ways businesses can anticipate and prepare for this economic factor from a macro perspective would be to provide compensation structures that reward loyalty and effectiveness while being flexible and scalable for the future.

Sociocultural Factors

When creating an in-depth macro analysis sociocultural factors are arguably the hardest to predict and the most impactful in the long run. Sociocultural factors describe what society as a whole regards as acceptable practice from a business perspective. This can include how companies compensate people, what they give back to society and their public image. The focus for this factor will be on global consumer preferences. Essentially this just describes what consumers find beneficial and how companies can accommodate consumers from a global perspective. The data collection company Qualtrics observed that consumers have shown a recent preference for impactful human engagement over convenience when engaging with brands. This reflects a recent trend of consumers wanting enduring experiences instead of basic transactions in the physical and digital world(Qualtrics, 2022. What this means for businesses from a macro perspective is that the way they interact with their customers should be focused on providing excellent service over convenience and attempting to give their customers an experience instead of a simple transaction in many cases. This will likely mean a greater investment in customer service and some cases a restructuring of how transactions are done in business-to-consumer situations. Primarily this will be an increased priority for the marketing and logistics departments of car rental companies.

Technological Factors

Technology is perhaps the greatest catalyst of all of the factors because of how quickly it develops and changes. The technological factor on a macro level describes how businesses utilize and are affected by new and different technologies. Analytics and information technology are going to be the focus of this technical analysis and are probably the most significant

technological developments in recent years. Data and information technology describe the system that collects, processes, and creates models of the increasing amount of digital data that can then be used for a variety of business purposes. The value of data for companies of any size, type, and scale is steadily growing and becoming the biggest focus of most major industries. The ability to collect data has been quickly increasing but so have concerns over what that means for consumer privacy. The idea of being able to create a unique experience for every individual customer that perfectly suits their preferences is incredibly valuable given how focused consumers currently are on a great experience when purchasing a product or service. Statista estimates the big data market size to be around 77 billion dollars currently and predicts it to reach 103 billion within the next four years(Taylor, 2022). This demonstrates the massive implications that data analysis and information technology have for all businesses on a macro scale. The impact of this is going to be a greater investment in data analysis to simply compete in whatever industry a company is a part of. However, growing privacy concerns will likely lead to more regulation of the industry, likely creating a larger overhead when companies that utilize data analysis must regulate themselves.

Ecological Factors

Ecological factors on a macro scale have become increasingly more impactful in the past few decades. As the ecological situation globally grows more concerning, companies in all industries are experiencing a variety of impacts. The specific ecological concern in this analysis is climate change which is still quite a broad factor. For the most part, climate change is directly increasing prices for goods and services for a variety of reasons. It is important to acknowledge how connected every industry is right now and understand that what affects one industry from an ecological and climate change perspective will almost certainly affect several other industries.

Climate change is changing how companies source resources because it is shifting when and where resources are available. The ever-increasing scarcity of food and water due to climate change is affecting a large part of the workforce, who are experiencing higher prices for these and other necessities. This results in a demand for better compensation for the entire workforce, costing companies more money. An article published by Forbes described how the operations of around 30% of companies are impacted by natural disasters such as fires and floods becoming more common and intense(Forbes Magazine, 2021). Essentially, climate change is a major ecological factor because it affects nearly every individual in the workforce as well as most companies, sometimes in very impactful ways.

Legal Factors

The legal factors of the macro environment describe regulations and oversight that companies must adhere to. These factors are the foundation for fair and effective business practices and while they seem like they would be mostly static, legal factors often change very quickly in response to major changes to the macro environment. The legal factors that will be focused on for this analysis are NFT and Cryptocurrency laws. The development of blockchain, which is the system that allows for NFTs and Cryptocurrencies to be secure, is also making major changes in several significant industries. NFTs and Cryptocurrencies have gained a massive amount of relevance in only the past few years and have been the cause of major legal developments. What this means from a business perspective is with the increasing use of cryptocurrency by consumers comes different ways to process transactions. Companies that do not adapt their technology and policies to incorporate consumers who pay with crypto will likely lose market share to competitors that will. The increase in the cost of technology could potentially be nothing compared to the decrease in revenue by not accepting crypto.

Industry Analysis

The term industry can mean many things to many people but for this analysis, the principle definition that will be used is a collection of companies that are related based on the business activities that they primarily participate in. Analyzing specific industries can be very beneficial in gaining an understanding of what the relationships look like within that industry and how particular industries react to external factors.

Industry Overview

The industry that will be the subject of this analysis is the car rental industry. This includes both national and regional companies that rent cars out to individuals, however, it will not include peer-to-peer rental services.

Key Drivers of Costs: Vehicle maintenance, labor, logistics, fuel costs, accounting and bookkeeping, marketing, insurance, distribution, and customer retention programs.

Key Drivers of Revenues. Rental payments, membership fees, damage, and penalty fees.

Industry Life Cycle Analysis

The industry life cycle refers to the pattern of growth and decline that nearly every industry experiences. The five core stages of the industry life cycle are introduction, growth, shakeout, maturity, and decline. While this cycle is somewhat of a spectrum, nearly every industry falls into one of the five stages. The car rental industry fits comfortably in the maturity stage of the industry life cycle based on the few large firms that remain in control and the distinct lack of industry growth. This is important to recognize because understanding what stage an

industry is in can help contextualize the patterns and structures that are demonstrated within the industry.

Given that the industry as a whole is in decline, firms that still operate within the industry must continue to adapt their structures and models to compensate for a shrinking market share. The cost to maintain and replace vehicles will likely continue to increase and with less revenue, the companies will have to compensate for losses elsewhere. As the market continues to shrink large firms will absorb smaller firms to try and pull as much market share as they can.

Product Life Cycle

When an industry is in its maturity stage there is likely little innovation occurring because developing new technology is expensive and with shrinking revenue and market share there is less incentive for firms to invest in innovation. This is not to say that the industry is not adopting new technology to cut costs and improve the overall experience of its customers. However, given that this industry is primarily service-based and there was not an explosive amount of product innovation occurring in the first place, there will likely not be significant innovation now or in the future beyond the integration of emerging technologies.

Process Life Cycle.

The maturity stage of a primarily service-based company will likely result in process innovation only to reduce the amount of effort and cost that goes into each customer and transaction. There will not be a significant amount of investment into process innovation but given the opportunity to use automation and data analysis, for instance, to streamline their business processes, it is in car rental companies' best interest to do so.

Industry Forces (Porter's 5-Forces) Analysis

Porter's Five Forces are a framework to understand what constraints exist on an industry's profit potential. It is essential to understand these forces both as an industry insider and as a consumer because it allows you to predict how the industry will respond when the forces interact with the industry. The five forces are the threat of new entrants, the bargaining power of buyers, the bargaining power of suppliers, the threat of substitutes, and the rivalry among existing competitors. The forces can be classified further into strong and weak forces. Strong forces represent a high threat to industry profit by potentially increasing costs or decreasing revenue while weak forces represent a low threat to industry profit. Strong forces can only be avoided by exiting the industry but can be mitigated through protective actions. Weak forces can be avoided by adjusting business processes and can be mitigated by recontextualizing them as an opportunity.

Threat of New Entrants.

The threat of new entrants varies in how impactful it is depending on the industry. Essentially it means how difficult it is for companies to do something that is already being done in specific industries. Rival companies emerging in an industry can result in existing companies lowering prices to stay competitive. The analysis will focus on the car rental industry, specifically on the use of airport contracts as barriers to entry. The use of airport contracts between rental companies and airports is beneficial for both sides as the airport will always have rental cars available and the car rental companies experience less risk of a new company entering their market. The use of airport contracts makes the threat of new entrants a relatively low threat

to the major rental companies. This allows the companies to charge higher prices due to reduced competition, resulting in higher overall revenue as the customer demand still must be met.

Bargaining Power of Buyers.

The bargaining power of buyers as a force describes how much influence consumers of a product or service have over profitability. The force can be affected by the number of consumers in the market, the spending power of consumers, and the ease or availability of other options for the consumer. The availability of complimentary goods will be the focus of the analysis of this force with regard to the rental car industry. Complimentary goods in the case of car rentals can mean plane tickets, hotels, and other services and products that consumers purchase when traveling. Ensuring that car rentals are purchased alongside complimentary goods can result in consumers having more difficulty switching to other companies if the rentals are part of a package deal. This drives up revenue by being able to charge more with less consumer maneuverability but can also increase costs in the form of profit sharing or agreements with companies offering complimentary goods. In the case of the car rental industry, this is a relatively low-threat force as it must be overcome through agreements and contracts with other companies.

Bargaining Power of Suppliers

The bargaining power of suppliers as a force is what influence suppliers for a company or industry have over the cost and availability of supplied goods and services. Suppliers with specific high-quality products have a higher degree of control over their cost and availability structure and can therefore drive up the costs of materials for companies that rely on them. On the other hand, companies that produce cheap and common materials do not have as much

influence and can end up having to reduce costs to meet limited demand. The car rental industry does not require specialty goods or services aside from vehicles, labor, and insurance.

Commercial insurance is probably the supplier in the rental car industry with the most power.

The rental companies must have insurance on their products to protect themselves from financial and sometimes legal complications. This allows commercial insurance companies to charge large amounts of money as they often operate on a contractual basis. Given that this force is usually overcome through contracts, it would likely be considered a relatively high-threat force.

Threat of Substitutes

The force defined as the threat of substitutes represents the power that companies offering the same or similar products or services have over one another and how easy it is for consumers to utilize those alternatives. This affects companies by decreasing profit potential in industries with a lot of competition. Additionally, similar products with a higher perceived value will be purchased more frequently, increasing production costs for competitors. With respect to the rental car industry the substitutes that will be the focus of this analysis are bus, train, or rail services. Public transportation is a relatively low-threat force in the sense that renting a car can be a far superior alternative to public transportation in the freedom and convenience it provides the customer. This force will not reduce profit potential and could even increase it by putting a premium on being in control of where your vehicle is going, raising prices rental companies can charge.

Competitive Rivalry

The force of competitive rivalry is defined by how hard companies compete for the same market share and profitability. The intensity of the force in an industry is determined by the number and

size of competitors, the ability to distinguish between brands, and the state of the industry is in. Businesses with high competition could see lower profit potential due to having to lower prices competitively. In addition, profit potential could be lowered through constant competition for market share, increasing the cost of publicity and production. In the case of the car rental industry, there are very few large competitors in the industry with nearly 94% of the market share being held by three companies. There is still stiff competition amount those three, however, specifically when it comes to promotions and discounts. Due to the fact that large companies and their smaller subsidiaries often directly compete for the same consumers, the power of promotions and discounts has a major impact on the industry.

Industry Competitors

In the simplest terms and business model is a strategic plan of how a company will make money, as defined by Investopedia. This can include identifying revenue sources, a customer base, products or services, and financing. A strategic group is a collection of companies within the same industry that have similar business models and strategies. The most common business model used by nearly all non-peer-to-peer rental car companies is described by Car Rental Gateway as a station-based model, meaning that vehicles are in a fixed location and picked up and returned to that same lot. There are a few smaller companies that specialize in luxury cars using a similar model but with higher prices and few locations. The relationship between location and price for these smaller companies can be seen in Figure 1.

Figure 1

Competitive Actions

The competitive actions that are most commonly seen in the car rental industry are contracts with companies that offer complimentary goods. This can include contracts with airports to ensure that new competitors cannot compete as effectively for market share in the most common marketplace for renting a car.

Summary of External Analysis – Opportunities and Threats

One of the most significant opportunities that many companies are embracing right now is the implementation of data collection and analysis to provide a better user experience. As outlined in the sociocultural section of this analysis, consumers desire a better overall experience in place of convenience, and having the capability to create unique experiences for each individual customer offers an opportunity to charge high prices for products and services as their perceived value will increase. Another major opportunity for companies in the current environment that has not been widely embraced is the integration of cryptocurrencies into traditional transaction models. This has the potential to dramatically decrease costs when considering the amount of labor and security involved in cash transactions. A major threat to companies that is emerging is a decreasing labor force and a larger demand for compensation in turn. If companies cannot find effective compensation structures to keep high-performing employees, the cost of finding new labor will become quite large, reducing profit potential for businesses that cannot adapt. Another threat that companies in every industry are facing is the increasing impact of climate change as discussed in the environmental factor analysis. Companies that do not adjust their practices to reduce their impact on climate change will likely

become ostracized by a society that is quickly growing more conscientious. The result of this would be a distinct drop in customer loyalty, greatly reducing potential revenue.

Overview of Internal Analysis

About the Company

The Avis-Budget Group is one of the world leaders in rental cars and mobility solutions through three major industry brands; Avis, Budget, and Zipcar. The company has been in business for around 70 years and operates in 180 countries. Its stated mission is to ensure a stress-free rental experience by providing superior services and catering to its customer's individual needs. The values that drive its business are integrity, respect for the individual, quality, teamwork, growth and profitability, and community responsibility. The vision of Avis-Budget is to lead the industry by defining service excellence and building unmatched customer loyalty.

Business Model

Avis utilizes a similar business model to other large car rental companies around the world and in the United States. The use of a station-based model means that Avis has cars in many locations that are rented out to customers for use in that area. Traveling customers are willing to pay for the convenience of having a vehicle available for their personal use and this is the primary driver of revenue for most rental car companies. Avis-Budget operates around 11000 locations, many near airports and other travel centers, and consequently has had significant success in the rental car business. In addition, the company can charge for extra services if requested as well as damage or misuse of vehicles.

Value Chain Analysis

Primary Activities

The primary activities driving Avis's rental business include maintenance and customer service. Avis has developed training programs that ensure that maintenance done on their vehicles in-house is the highest quality possible. This activity increases revenues as the vehicles they offer are of higher quality and last longer than they would without critical maintenance. The customer service they offer is focused on training employees to have positive impacts on customers and providing engagement with their customers through technology and social media. The mobile app that customers often use provides fast customer service but they also have representatives that are able to meet customer needs. The technology that they use decreases costs as they do not have to have a representative available to handle every situation, only those that require a greater level of human contact.

Support Activities

The support business activities of Avis are based on fleet availability for traveling customers. One of the primary priorities of Avis is fleet acquisition to allow more rentals and higher-quality vehicles. Having a large number of high-quality vehicles available increases revenues for Avis because they can have many customers paying higher rates than they would to other rental companies. They also maintain a diverse fleet so customers have many options. Avis reports that no vehicle manufacturer represented more than 21% of their 2021 fleet purchases. This gives customers more options, allowing Avis to increase revenue by capturing customers who enjoy different brands of vehicles.

VRIO Analysis

One of the opportunities that Avis incorporates into its value chain is the use of online reservations. This is a strength of Avis as its infrastructure and size are conducive to using

technology to increase convenience. Online reservations are mutually beneficial for Avis and its customers because it makes transactions more convenient for everyone involved. Customers that rent through online reservations save time and can make decisions about their rental prior to arriving at their destination. Avis benefits because they have time to prepare reservation requests and can better predict what their vehicle availability will need to be. Online reservations fall under both support activities as it closely ties in with information systems that enable Avis to operate as efficiently as possible. This opportunity is valuable as it takes advantage of its customers' access to technology and the growing prevalence of data analysis. It is also organizable given that Avis can use online reservations to save time and resources and provide more convenience for their customers. The use of online reservations is not rare or particularly inimitable. There is a certain amount of maintenance involved in using a system like this as you will likely need to implement updates or solve issues with the software. In the case of Avis, online reservations need maintenance due to the importance of functional technology.

The resource of credit risk as it relates to Avis is a risk that they must deal with when evaluating their potential customers. Customers with a high credit risk are likely to not be able to pay for damage or misuse and will therefore cost Avis money. Avis is large enough that it is not a major hindrance and it falls under the support activities section of its value chain. Credit risk is valuable to Avis because it can serve customers with higher risk due to its size and ability to mitigate major losses. It is also rare because only the largest rental companies can access customers with high risk, without the possibility of a major financial hit. Credit risk is not inimitable or organizable however within the context of Avis. It can create a competitive advantage for Avis as it can access a customer base that smaller rental companies cannot. As a resource, credit risk needs reinforcement as too much risk can begin to backfire on Avis.

Another weakness that Avis must contend with is communication in their organizational structure. There is often no clear communication between individual locations and the company as a whole. As a resource, communication falls under support activities in the company's value chain. Organizational communication is valuable and organizable if done well but is not rare or inimitable. Good communication can create a competitive advantage but it does not do so for Avis. Communication within Avis needs reinforcement as it is causing problems on several levels for the company.

Summary of Internal Analysis

The ability of Avis to constantly have a selection of new and diverse vehicles is one of its greatest strengths and as such will continue to increase revenues. The higher-level consumers that Avis is targeting want a wide selection of high-quality vehicles and Avis's capability to provide this allows them to charge consumers more for catering to their specific demands. Avis's ability to implement online reservations is another major strength for the company and has the potential to decrease costs by reducing the number of representatives that are needed to assist customers and ensuring that Avis has a good idea of how many vehicles are going to be available at any given time. One of the major weaknesses of Avis is its lack of communication, resulting in unhappy customers being less likely to use Avis after a poor experience. This can potentially reduce revenue as those customers cannot be counted on to return.

SWOT Analysis

Companies that can identify advantages and disadvantages both internally and externally, can better understand what they are doing right and can identify what issues could arise in the future and take steps to address them. Using a SWOT analysis, companies reflect on their

strengths and weaknesses leading to business strategies that are conducive to what the company does well and what it does poorly. An analysis of opportunities and threats in the industry allows companies to predict when problems will arise and develop strategies that take advantage of opportunities and mitigate threats. Table 1 demonstrates a SWOT analysis for Avis, providing a look at the company's current capabilities and demonstrating what may become key issues in the future as the market that Avis occupies grows and changes.

Table 1

SWOT Analysis

STRENGTHS (Internal + Helpful)	WEAKNESSES (Internal + Harmful)
<ul style="list-style-type: none"> ● Online Reservations ● Brand Image ● Premium Perception and Price 	<ul style="list-style-type: none"> ● Credit Risk ● Organization Structure (Communication) ● Customer Satisfaction/Brand Reputation
OPPORTUNITIES (External + Helpful)	THREATS (External & Harmful)
<ul style="list-style-type: none"> ● Information Technology ● Rivalry ● International Structure 	<ul style="list-style-type: none"> ● Oligopoly Structure ● Dependence of Political Factors ● Power of Commercial Insurance Providers

Competitive Advantage Analysis

Quantitative Analysis

Avis-Budget and Hertz are key competitors in the rental car industry as they are the biggest companies behind Enterprise by market share, with a few key metrics for each company being compared in Table 2. Hertz has a higher market share than Avis by around 4% but Avis's total revenues are greater than Hertz's by nearly \$2 billion in 2021. Avis also is comparatively better than Hertz in its ROA, financial liquidity, and market capitalization though all of these metrics are still fairly competitive between the two companies.

Table 2

Financial Ratio Comparisons Across Avis-Budget and Hertz (2021)

	<u>Avis-Budget</u>	<u>Hertz</u>
Total Revenues	\$9.313 billion	\$7.336 billion
Market Share	17.65%	21.69%
ROA	16.4%	9.45%
Financial Liquidity Ratio	1.62	1.27
Financial Market Ratio	8.74 billion	6.31 billion

Qualitative Analysis – Competitive Metrics

Avis-Budget and Hertz both depend on employee and customer satisfaction to operate effectively, and a few metrics to determine each company's employee and customer perceptions can be found below in Table 3. Avis-Budget and Hertz are both Fortune 500 companies with Avis being ranked higher due to its financial performance. Both companies have suboptimal employee satisfaction based on their Indeed ratings, with Avis having a slightly better reputation with employees than Hertz. Customer outreach is critical to both companies, making social media a valuable metric. Hertz has a significantly larger following on Twitter than Avis by nearly double. The diversity and culture metrics for Avis and Hertz are both based on Comparably.com reviews. The scores for both companies are lower than ideal with Hertz having just slightly higher scores in both categories.

Table 3

Competitive Metrics Comparisons Across Avis-Budget and Hertz

	<u>Avis-Budget</u>	<u>Hertz</u>

Fortune 500 ranking	378	462
Indeed Rating	3.5	3.2
Twitter Followers	44.6k	75.6k
Comparably Diversity Rating	58/100	61/100
Comparably Culture Rating	2.6/5	2.7/5

Summary of Competitive Advantage Analysis

The insights that can be gained from a comparison of the qualitative and quantitative analysis of Avis and its primary rival Hertz is critical to understanding what makes Avis more successful. Avis has less market share but higher financial metrics due to its focus on high-income consumers and consumers who spend more money on rental cars. Avis may beat out Hertz in nearly all quantitative measurements but based on the qualitative analysis, Hertz seems to have a slightly better relationship with its employees and customers. The competitive advantage of Avis is clearly in its financial capabilities and income while Hertz has the advantage in perception and satisfaction.

Impact of Employee Satisfaction at Avis-Budget

Avis occupies less market share at approximately 18% than its closest competitor, Hertz at 22%, yet still managed to boast significantly higher revenues in 2022(Leading Auto Rental Firms, 2021). This is due to many factors including technological and fleet infrastructure superiorities but one factor that is not reflected in many explanations is the superior conditions for employees within Avis. Employee satisfaction is a priority for all companies in the rental car industry however Avis performs better than the other companies in several key employee satisfaction metrics. Firms that rely on their customer service as much as rental car companies do must make sure that employee satisfaction is as high as it possibly can be without impacting financial viability. Logically firms that give customers a good experience with something as personal as renting a car tend to have a greater amount of return customers and therefore more success in such a highly competitive industry. A Forbes magazine article reinforced this idea, stating that when employees are dissatisfied “their interactions with customers can, and almost always will, suffer”(Prossack, 2019). Beyond this, ensuring the employees are satisfied has a direct impact on many business outcomes. For example, a Villanova University study outlined the ways that job satisfaction strengthens a company including lower employee turnover, higher productivity, increased profits, and greater employee loyalty (Villanova University, 2022). Creating a better environment for employees has become central not only to Avis’s management infrastructure but its public identity as well.

Avis’s commitment to employee satisfaction superiority in the industry has been a defining characteristic of the company since the 1960s. Faced with mounting financial instability

and rising pressure to compete with other rental car companies, Avis adopted the now-famous concept of trying harder because it was necessary to compete. An article from Slate detailed the philosophy that Avis adopted in 1962 and the successful advertising campaign that followed. Avis was trailing behind the competition and contracted the ad agency Doyle Dane Bernbach, who in turn embraced Avis's relative lack of success with the new tagline "When you're only No. 2, you try harder, or else(Stevenson, 2013)" The "We Try Harder" philosophy continues into the modern era for Avis as they are still considered to be ranked below their competitors in market share but have demonstrated how that idea can allow them to enjoy more success despite this. While this philosophy was essentially a marketing tactic, embracing it throughout the company has placed a greater emphasis on keeping employees happy to ensure customer satisfaction.

Avis sets itself apart from its competitors in several ways when addressing employee satisfaction. In its mission statement and corporate values, Avis specifically induced employees in its stated values alongside customers and shareholders, in contrast to the customer-centricity demonstrated in other companies' values. Respect for every person they work with, clear communication with employees, embracing a diversity of ideas, cultures, and backgrounds, and career development are all goals that Avis states clearly, ensuring that employees understand where they fit in the organizations and where Avis's priorities lie. When compared with other firms in the car rental industry, there is a clear distinction between Avis and others in their stated values(Avis Budget Group, 2023)

The focus on employee satisfaction at Avis is noticeably higher than its closest competitor, Hertz as shown in the 2021 10-k reports of both companies. Hertz addresses the main concerns when regarding their human capital management with a list of programs and benefits

that their employees may qualify for including 401(k) matching, insurance coverage, discounts, training, and so on. Hertz also provided information about their diversity inclusion, as is standard in most 10-k reports(The Hertz Corporation, 2021). While this shows clear regard for employee satisfaction it is less impressive when compared with the 2021 10-k report of Avis. The report for Avis included this same information and additional information about their gender pay equity and their commitment to the recruitment and development of employees. The Avis 10-k also provided insight into the company's emphasis on employee well-being through its Live Well program, an approach to ensuring that employees achieve physical, financial, and emotional well-being(Avis Budget Group, 2021). Hertz stated similar priorities but provides no information about any equivalent program for employee wellbeing. Overall, comparing Avis's 10-k with that of its closest competitor revealed a much greater commitment to employee satisfaction and well-being.

Another central concept to Avis's employee satisfaction commitment is an emphasis on diversity and inclusion. Avis emphasizes this in its 2022 Environmental, Social, and Governance report in which it included a statement about the importance of diversity in the company and their commitments to increasing diversity in the future. The U.S. minority representation is reported to be a total of 66% throughout every level of the company with a total female representation of 36%. In 2021, the Avis Budget Group signed the UN Women's Empowerment Principles, a commitment to assess gender equality in companies and make improvements. Additionally, Avis continues to be recognized as one of America's Top Corporations by the Women's Business Enterprise National Council, the only car rental company to be recognized since 1999. Avis Budget also spends at least 1 billion dollars annually on minority and women-owned businesses on a first-tier basis as a part of the Billion Dollar Roundtable. Avis

ensures that employee satisfaction extends to all of its employees with an emphasis on diversity and inclusion(Avis-Budget Group, 2022).

The emphasis that Avis has placed on treating their employees better than other firms in the rental car has resulted in noticeably higher employee satisfaction as assessed by several major third-party entities. An authority on employee satisfaction comparisons, Great Place to Work, determined that 75% of employees at Avis-Budget regard it as a great place to work significantly surpassing the US-based company average of 57%. When compared to its closest competitor in the rental car industry, Avis outperforms Hertz in employee satisfaction on both Glassdoor and Indeed, two of the most significant employment websites. While this is good for Avis from an industry-only perspective it is important to note that Hertz is rated as one of the worst companies to work for by several financial opinion companies(Working at Avis Budget Group, Inc, 2023)

The association between employee satisfaction and business success has long been the subject of investigations by businesses that want to understand the impact of efforts to make employees happier on their bottom line. Several studies have been done in service of understanding how employee engagement impacts customer satisfaction and if emphasizing a good work environment can lead to higher performance. One such study, submitted to the Journal of Applied Business Research, analyzed the effect that job satisfaction had on absenteeism and turnovers(Baker, 2004. While this study was not specific to the car rental industry, it concluded that there was a possibility that job dissatisfaction will lower commitment to the organization, potentially resulting in negative employment behavior. This study demonstrates that the relationship between employee satisfaction and performance is complicated but linked, meaning it is likely worthwhile for companies to focus on ensuring

employee satisfaction. Another study submitted to the scientific journal *Quantitative Marketing and Economics* specifically explored the relationship between employee engagement and customer satisfaction and retention in the car rental industry. The study concluded that there is a positive relationship between these metrics. Perhaps more significantly though, the study also concluded that encouraging employees to stay with an organization increases engagement and indirectly, will affect customer experience (Ahmed Khwaja & Nathan Yang, 2022). These studies provide plenty of reasons for companies like Avis to continue to emphasize employee satisfaction, as doing so will almost certainly affect the financial performance of the company.

The competitive advantage that Avis maintains because of its employee satisfaction commitments is recognizable through its profitability despite having less market share and being regarded as the smallest of the dominant companies in the car rental industry. Their commitment is demonstrated through their stated values and visible when compared with competitors in their industry. The importance of employee satisfaction is well understood by Avis and their commitment to continue ensuring the well-being of their employees has become a large part of their identity and public image.

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