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Whither Franchising? The Case of Avis Europe PLC

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This case study of Avis Europe PLC examines the diminished role of franchising in the vehicle leasing firm's achievement of market dominance in Europe. Market maturity, industry consolidation, adoption of centralised, efficiency-oriented technologies, and strategic alliances are the principal factors in accounting for the decline in the reliance on franchisees for local entrepreneurship and market expansion. Though many theories of franchising find at least some support in this study, the life cycle or ownership redirection explanation proves particularly compelling. Copyright © 2004 John Wiley & Sons, Ltd.

INTRODUCTION

This paper offers a case study examining the use of franchising by the vehicle leasing firm, Avis Europe PLC (AVE). AVE has utilised a dual distribution system composed of centralised, company-owned outlets and decentralised, independently owned franchises in expanding its market position, notably in Europe. By the mid to late 1990s, the role of franchises became less important relative to company-owned outlets in advancing AVE's dominant position in Europe and elsewhere. By the late 1990s, Avis in both the United States and Europe bought back their largest franchisees. Further, Avis purchased one of its biggest rivals in recognition of market maturity and adopted centralised, cost-reducing technologies. Hence, the need for (or indeed realisation of) local entrepreneurship as expected from franchisees receded.

AVE, based in England, is Europe's largest vehicle leasing company. Its 105-country network covering Europe, Africa, the Middle East and Asia is composed of some 1700 company-owned outlets and 1300 franchises. The company had its initial public offering on the London Stock Exchange in 1997. Though it is independently owned, AVE maintains an active, cooperative relationship with Avis, Inc. in the United States (AVUS) through shared technology and marketing initiatives. With the recent purchase of Budget, Avis worldwide has become the dominant car rental company. 'We try harder' has been more than a slogan.

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WHY FRANCHISE?

First, how should 'franchising' be understood? Price (1997) comprehensively documents a 'jungle' of meanings that he attributes to a lack of research into franchising. Nevertheless, Klein (1995, p. 10) states franchising 'permits transactors to achieve whatever benefits large scale may be available in, for example, brand name development and organisational design, while harnessing the profit incentive and retailing effort of local owners'. Similarly, Dnes (1992, p. 3) articulates the essential feature of franchising when he states: 'A franchise is created when one party, the franchisor, allows another, the franchisee, to use his trade name (and possibly a business format) in operating a satellite (i.e., independently owned) business in return for fees'. Indeed, such a licensing arrangement that is a contractual one with an agent acting on behalf

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of a principal is an intended means for companies to overcome monitoring costs and to rapidly expand their geographic presence and grow their business. Second, franchising has been a significant economic phenomenon at least for the past two decades. According to the International Franchise Association, there are some 1500 companies using franchising in 75 businesses worldwide. Given the remarkable contribution of franchising to global economic growth over the past two decades, economists and others interested in entrepreneurship have been attracted to the study of franchising. Spinelli *et al*. (2004) see franchising as an 'entrepreneurial alliance' between franchisor and franchisee who jointly exploit market opportunities with a proven business concept. They and others have been inspired by the classic work of Schumpeter (1934), Hayek (1945), and Kirzner (1973). Franchising is very much about 'carrying out new combinations' (including organisational form), 'time and place' knowledge, and 'alertness' in generating residual profits and market success.

Further, the new industrial organisation economists, in particular, have been inspired to study franchising given the pioneering work of Coase (1937), Williamson (1975), and others regarding the importance of organisation in explaining economic activity.[1] Franchising is regarded as a hybrid organisational form that lies on a continuum somewhere between the extremes of the market and hierarchy making it an especially interesting study. Williamson (2002) continues to provide compelling arguments for studying the organisation of firms through the lens of governance structures that recognises the import of transaction costs (in addition to production costs) and illuminates the boundaries between firms and markets. Indeed, Williamson (1994) has argued for the primacy of the transaction as the 'fundamental unit of analysis'. Efficiency-driven practice, or economising, is regarded as the primary and relentless activity of firms according to the transaction cost approach. Principal factors of consideration include bounded rationality, opportunism, and asset specificity.

Perhaps the most important question concerns the reasons for franchising. The explanations for franchising include inadequate resources, particularly capital and local markets knowledge (Ozanne and Hunt, 1971; Vaughn, 1974; Caves and Murphy, 1976; Mendelsohn, 1985; Martin, 1988; Minkler, 1992). Such scarce inputs individually or collectively handicap franchisors' ability to leverage economies of scale and extend a brand name. Franchisees are often regarded as initially attractive for their up-front fees they provide the franchisor in exchange for the use of the brand name and possibly a business format. However, note that Rubin (1978) considers separated capital raising, using a pool of professional investors as likely to be cheaper than involving franchisees where the latter are the more risk-averse parties.

Franchisees may be regarded as a self-selected pool of entrepreneurs willing to invest their capital in a proven brand name and possibly an established business format thereby undertaking less risk than if they were to invest or maintain their investment in a separately owned and rival business concern. They may be willing investors only if involved closely in local management. Minkler (1992) points out that the franchisee has valuable or even superior knowledge of local markets that may be tacit in nature. To the extent it is tacit, it is not easily transferable to or appropriated by the franchisor. Hence, it is expensive. So, effectively, the franchisee agrees *ex ante* to share his profits as they relate to his tacit knowledge. Profit-sharing and discretion are the primary characteristics of the franchisor. In short, the franchisor is contracted for their capital provision and entrepreneurial abilities, particularly with regard to local markets.[2]

Interestingly, the inadequate resources explanation naturally leads to an equilibrium possibility whereby resources are no longer inadequate or profit-sharing and franchisee discretion are no longer desired. As Minkler (1992) explains, the franchisor over time learns and is able to apply what the franchisee knows. Control of operations and profit-stream become the franchisor's goal. Hence, there is a reversion to vertical integration. Franchise contracts are not renewed and franchises are purchased and replaced by company outlets. Franchising is then viewed as a short-term strategic choice to overcome resource constraints and effect rapid market penetration.[3] This life cycle or ownership redirection extension of the inadequate resources explanation has been advanced by Oxenfeldt and Kelly (1969), Caves and Murphy (1976), Minkler (1992), Dant and Schul (1992), Thompson (1994), and others.

Franchising is also explained in accordance with agency theory and transaction costs analysis. The

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costs of monitoring and control of employees are assumed to be not insignificant as employees may well shirk their responsibilities and hence contribute to the sub-optimal performance of their employer. Franchising is viewed as a solution when the costs of the franchise contract, including the provision of profit-sharing, are less than the costs of monitoring company-owned outlets. Franchising is an attempt to more closely align the incentives of individuals with those of the company. Of course, the franchise contract is likely to be incomplete given the prohibitive costs of trying to anticipate every possible scenario. As Dnes (1992, p. 13), however, notes: 'These incomplete areas will nevertheless be governed by incentive structures set in the agreement'. Posting bonds or taking hostages may be utilised to obviate opportunism and hold-up, whereby one party takes advantage of loopholes within the explicit contract (Williamson, 1983). The risks associated with incomplete contracts are particularly high when there is a greater degree of asymmetric information and asset specificity involved (Klein *et al*., 1978). It has been argued that when a franchisee is involved in multiple businesses, it is much more difficult to correctly identify the proper amount of time and effort that should be devoted to each business within an explicit contract (Milgrom and Roberts, 1992). In addition, it has been argued that implicit agreements between the franchisee and franchisor may arise to fill the voids of explicit contracts (Klein, 1980; Klein and Leffler, 1981). It is basically an issue of balancing risks with incentives. The agency and transaction cost perspectives have been developed and advanced by significant scholarship (Rubin, 1978; Mathewson and Winter, 1985; Brickley and Dark, 1987; Carney and Gedajlovic, 1991; Dnes, 1992). Important antecedents include Alchian and Demsetz (1972), Williamson (1975), and Jensen and Meckling (1976). Of course, all of this research has its roots in Coase (1937) and Simon (1945).

COMPANY BACKGROUND

Warren Avis established the car rental business bearing his name in 1946 in Detroit, Michigan. It was the first such business located at an airport. By 1953, the company expanded into Europe, Canada, and Mexico with franchise operations. Avis Europe (AVE) had its own corporate headquarters in Britain by 1960 and by 1973 became Europe's largest car rental firm. Since 1960 it has operated independently, yet cooperatively, with Avis Inc. in the United States (AVUS) despite the several changes in ownership over the years. Together they provide 'seamless' global coverage of the car rental market with shared technology and marketing activities.

Today AVUS is a wholly owned subsidiary of Cendant, a diversified conglomerate composed of related travel businesses including hotels, timeshares, and travel distribution. Cendant believes these businesses provide 'multiple points of contact with customers along the travel spectrum' thereby exploiting scope economies through complimentary resources and knowledge. In 1997, AVE was floated on the London Stock Exchange. D'Ieteren S.A., Belgium's leading car importer and distributor, is its largest shareholder with nearly 60% of the outstanding shares. The remaining shares are widely held. D'Ieteren was an Avis franchisee starting in 1958. AVE has an exclusive license with Cendant until 2036.

AVE rents cars to seven million customers yearly through some 3000 outlets in more than 100 countries throughout Europe, Asia, Africa, and the Middle East. It operates in Europe's 75 biggest airports. Revenue sales of around 1.2 billion euros were generated in 2002, a 5.3% decline from 2001. Revenue segments in 2002 include Leisure with a 39% share (with 80% of this derived from Europe alone), Corporate with 22% of the overall revenue, Replacement accounting for 20%, and Premium (referring to customers who do not reserve their car hire in advance) with the remaining 19% share. For 2002, the UK, Germany, France, and Italy were responsible for 81% of the total revenue. Profit before tax, goodwill amortisation and exceptional items was 122.3 million euros, down 15.2% from 2001. Performance for AVE and the entire travel industry was adversely impacted by heightened geo-political risks as well as the continued economic slowdown in the global economy, especially Europe. Nevertheless, AVE maintained its market leadership in Europe. Further, it was bolstered by the acquisition of Budget, the third largest car rental firm in the United States and accounting for 20% of the European market.

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METHODOLOGY

Masten (2002) recently reminds the importance of continued empirical research on the firm, particularly where the choice of organisational form is concerned. He observes that theory has contributed much to our understanding of possible explanations for organisational architecture over the past two decades. However, it is the empiricists' 'mundane task' of collecting data whereby models can be tested that needs to keep pace. Klein (1996), Dnes (1996) and others[4] concur and specifically call for more attention to case studies given the detailed and varying nature of organisational structures including firms with franchising systems.

This research explores the role of franchising in AVE's quest for market growth and leadership. The research design is that of the case study whereby the behaviour of AVE has been observed and analysed over many years, using a range of sources including both primary and secondary. Utilising a breadth of sources permits a scrutiny of the data including cross-checking of information to insure accuracy and to delineate and appreciate the various perspectives. Sources included interviews conducted with company executives, managers and franchisees, published company documents (including press releases and annual reports), analysts' reports, previously published case studies, and articles in the business press. Interviews conducted with three outlet managers and three franchisees in Britain took place in 1988 and again in 1993. These interviews were conducted using the same interview instruments and yielded detailed insights into the nature of the franchise contract at the peak of AVE's use of franchising as a strategy to increase its market growth and development.

ANALYSIS

AVE provides a complete business-format franchise that includes operating manuals (regarding sales and administrative procedures) as well as a computerised reservations system linking each franchise with the Avis system. The franchisees emphasised the value of having an internationally recognised brand name that reassures the customer that he is buying a credible and durable quality service that features a full international service in terms of vehicle support and one-way hires. Direct financial assistance was not typically provided by AVE. However, support in the preparation of a business plan used to attract financial backing was offered by AVE. Further, a bespoke lending scheme for franchisees was developed by AVE with National Westminster Bank, a major British clearing bank. Also, AVE made available preferential leasing arrangements it had with automobile manufacturers (e.g., Ford Motor Credit).

The independent ability of potential franchisees to raise capital to invest in a franchise was regarded as a significant screening factor for AVE in its selection process. AVE believed the ability and sometimes passion required to persuade financiers or capitalists to advance funding are reflective of requisite business or even entrepreneurial acumen. Further, the more successful the track record of a potential franchisee in borrowing capital, the more likely the franchisor would regard the question of information asymmetry less problematic. Indeed, financiers contribute to the selection process of franchisees in an important way. Of course, the extent to which the franchisee is willing and able to invest her capital into the franchise (directly or by provision of security collateral) provides a compelling signal of commitment. It also serves as an indicant of the franchisee's tacit knowledge, self-confidence, and regard for her local market potential. Often, franchisees have a high proportion of their personal wealth along with their reputation as businessmen invested. Not just failure, but a lack of genuine success would seriously jeopardise their futures. It was believed that the expected returns could not be achieved in the capacity of an Avis outlet manager. Despite profit-sharing rights, managers would not have the same compelling ownership stake. As entrepreneurs *qua* franchisees, it was expected they would leverage their local knowledge and exhibit significant innovative activity.

In 1992, a lump sum of between 20 000 and 30 000 pounds sterling was paid by the franchisee upon agreement of the franchise contract. This fee was negotiable depending on the particular local market, keenness of AVE to penetrate the market, and exceptional circumstances (e.g., rental site such as a service station already established). In return for the lump sum fee, AVE provided a start-up package that included assistance with

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shop-fitting, uniforms, launch-advertising, stationery, training, and promotional materials. In addition to the paid lump sum, franchisees typically agreed to a 10% royalty that was levied on sales turnover.

AVE also offered franchisees purchasing expertise and bargaining power in regard to insurance and fleet deals. Nevertheless, lease arrangements tended to be particularly attractive to manufacturers as they were able to place their cars temporarily into hire fleets. Typically, the cars are leased for 10 000 miles over 3–9 months. The auto manufacturers benefited from the brand promotion as well as a robust, second-hand car market. However, AVE admitted that the franchisees are most profitable when they are able to purchase, rather than lease, the cars directly from the manufacturers and then sell them for their own benefit. The manufacturers were recognised for wanting to generate greater market share, cash flow, and profits. AVE did not directly benefit from the vehicle sales and likely experienced a decline in leasing revenue. It appeared that AVE inadvertently created a malincentive resulting from the combined incentives of encouraging franchisees to operate their own supply line with the manufacturers and utilising their motor trade knowledge to preempt competition and to exploit entrepreneurial talents using their local knowledge. The incentive for franchisees to own cars also conflicted with the need to pass vehicles around the network and into the care of other branches. The fundamental part of the business is that the franchisee receives the rights to operate under the Avis brand name, to use centralised booking arrangements, and to participate in a system of one-way car hire. Franchisees could also expect AVE to sustain international promotion of the brand name. In return, AVE expected the franchisee to honour the terms of the franchise contract and to maintain service levels at least equal to those of company-owned outlets.

AVE has a written franchise contract with each of its franchisees. The contract is intended to be minimal in that AVE does not want to legislate for every possible scenario. First, it is not economically feasible to do so. Second, AVE wants to provide the franchisees with the flexibility to exercise their entrepreneurial abilities in order to exploit their local markets. Nevertheless, AVE did specify marketing and operating support it would provide, the fees charged for franchise services, and the nature of monitoring activity effected by AVE, particularly concerning quality. More specifically, the franchisee agreed to participate in a system of one-way vehicle rentals, and to provide monthly reports on rental turnover (including time and mileage plus collision damage waiver fees). In addition, the franchisee agreed to spend a particular per cent (e.g., 2.5%) of his time and mileage charges on local advertising that could include telephone directory listings.

The franchisor's standards must be established *ex ante*; negotiating *ex post* with each franchisee regarding the costs and benefits of standards would not be efficient and could compromise the integrity of the entire system. Universal standards that are sustained and respected secure uniformity in products, outlets, and marketing. Indeed, the Avis trademark is sustained and economies of scale are realised. Of course, changes of a substantive nature unique to particular franchisees were expected to occur from time to time that might well alter the mutual understanding and application of *ex ante* standards. At such time, renegotiation may be justified, bearing in mind the 'knock-on' effects to the franchise system. Provided the emphasis on entrepreneurship is observed, such alterations could well be absorbed into the system without ill-effect. Exploiting the scale economies of system-wide standardisation whilst encouraging innovation in local markets does present what Price (1997) calls a 'franchise paradox' whereby a balance must continually be sought. So, it is informative to specify further the *ex ante* standards and desired practices set forth by AVE in identifying parameters in which the franchisee is expected and able to act entrepreneurially.

First, the new franchisee always agrees upon an initial vehicle fleet and a plan for its growth. Doing so provides an important mutual signal of commitment and expectation. The provision of vehicles by AVE were not as highly valued by at least some franchisees as AVE expected. In particular, the saving of the franchisee's search and negotiation costs were not so significant. Hence, AVE might just provide a fraction of a franchisee's fleet. Understandably, rental rates were at the discretion of the franchisee. However, franchisees needed to abide by internal transfer prices for vehicles hired on the one-way system. Under such a system vehicles may be left at an

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outlet from which they did not originate and subsequently be used by the receiving station, preferably as a means to make a return journey. The renting company, say the franchisee or AVE, must pay some 60% of time and mileage charges to the owner. This policy discourages a station from holding onto a one-way vehicle too long. The franchisee services vehicles that are in her domain if required to do so by AVE or another franchisee, even if they are not her own. The franchisee is remunerated for such work at agreed rates that may alter from time to time.

A franchisee may choose to leave the AVE system provided she has given a 6-months notice of such an intention. AVE may terminate its contract with a franchisee on the following grounds: (1) breach of contract by franchisee; (2) franchisee's insolvency; and (3) any case of sub-standard operation on the part of the franchisee. Grounds (1) and (3), in particular, could well be regarded as arbitrary or at least open to interpretation by AVE. In effect, AVE clearly has the influential role, not to be underplayed, in the franchisee's behaviour and performance as an entrepreneur that would likely vary from one franchisee to the next. Of course, AVE could always buy out the franchisee's contract at a mutually agreed price.

In addition to the written contract, the franchise relationship is subject to a number of understandings that have evolved over time. Though implicit in nature, they do serve to safeguard, if not reinforce, the relationship between the franchisee and AVE. Since such understandings are not legally binding, their increasing use may well reflect greater mutual trust resulting in more entrepreneurial activity on the part of the franchisee and possibly the franchisor. The understandings are likely to develop over time in the contexts of an ongoing dialogue between AVE and the franchisee and changes in the market. Hence, these understandings serve as an additional safeguard with respect to mitigating potential opportunism on either the part of the franchisee or franchisor.

First, there is a strong implicit understanding that AVE will undertake a significant amount of national and international advertising. However, since the understanding is not explicitly spelt out, this action is entirely at AVE's discretion. Certainly, large expenditures on advertising by AVE signals commitment to the Avis brand and franchisees. Also, such expenditures are understood to be sunk (or irretrievable) costs, which further enhances the franchise relationship.

Second, AVE fully expects the franchisees to operate vehicles that meet Avis quality standards. This 'no lemons' principle refers to the exclusion of cheap, low-quality, high mileage cars. Whilst the maintenance of standards is emphasised in the franchise contract, the particulars are not articulated. Hence, reliance is placed on an informal understanding as a means of preventing shirking or quality-shading on the part of the franchisee.

Third, it is acceptable for AVE to participate in the selection of the franchisee's managing director and operations manager. Often, at least one of the positions is held by the franchisee herself. Generally, this selection process will include Avis district managers and/or personnel related to the particular franchise. AVE would have no expectation to participate in the franchisee's hiring of other personnel.

Finally, it is understood that AVE-owned vehicles may be used by a new franchisee at local (i.e., discretionary) rates until the franchisee becomes established. However, once the franchisee is 'up and running,' the rental rates would be consistent with AVE-determined rates, which would be in keeping with established franchisees and AVE outlets. Indeed, 'established' can be arbitrary and vary from franchisee to franchisee depending on the particular circumstances. Franchisees did acknowledge that the Avis brand name was reassuring to the customer that she was buying a credible and durable service featuring a full national and indeed international system in terms of vehicle support and one-way hires. So, where the local rates might otherwise be lower than the AVE-determined rate, the nascent franchisees would likely quickly adopt the higher rate. In addition, to the extent car bookings were generated by AVE's central reservations system, it would be likely that the franchisees would charge the AVE-determined rate. Even though the franchisees emphasise the benefits of the brand name (e.g., ability to charge higher prices), the central reservations system was seen as valuable, too.

The oversight of the franchise network is fully integrated with that of the company outlets. District managers would monitor the daily operations of each AVE outlet as well as franchisee. Even though the franchise agreement only

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specified a monthly performance-reporting requirement, copies of each day's rental agreements would be sent to the district office. In the case of a new franchisee, copies would be also sent to the head office during the first 3 months of operations. The prospect of under-reporting of rentals was further deterred by complaints from within the entire system registered to the home office. Of course, AVE would hope that franchisees did not have to police each other. Such an occurrence would be 'disappointing'. Nevertheless, such a possible action could be expected and hence thought to serve as a useful safeguard. AVE believed that the monitoring system as described does provide a good idea of what business a franchisee should (at least minimally) generate.

AVE believes that franchisees should not be continually reminded of the franchise contract to the letter. If so, then termination of the franchise relationship might well be inevitable. This would be unlikely provided there existed a sound mutual understanding from the franchisee's inception, increasing use of implicit understandings, and an effective monitoring system. Nevertheless, AVE did find it necessary to terminate some early franchise contracts. Often, a lack of requisite business acumen was the primary factor. For example, in an attempt to address poor cash flows franchisees would sell cars that did not strictly belong to them.

Hitherto, the analysis is suggestive of AVE moving away from franchising as a means for expansion and growth. It is clear that AVE provided franchisees extensive interaction, support and indeed oversight. Such monitoring activity is what might be expected for managers of company-owned outlets. This is evident in both the explicit contractual arrangements and the implicit understandings between franchisor and franchisee. In fact, by 1988 AVE began buying back its franchisees including licensees. Recently, *The Financial Times* (2003) stated AVE had assumed 'full control of one of its few (largest) remaining licensees'. Indeed, this French firm was part of AVE's network for over 30 years and was responsible for generating a significant 18.5 million euros in revenue in 2002 (nearly 2% of total revenue). Buy-backs were focused on locations where national markets were concerned. These locations included airports and inner-city sites. Indeed, airports were increasingly responsible for half of AVE's business. (This would remain true in post 9/11 and the coinciding global economic slowdown.) In those cases, the dominant characteristic was repeat transactions with national business accounts. The value of local entrepreneurship was relatively limited from AVE's perspective. Further, it was found difficult to sustain the interest of franchisees in serving markets characterised by much one-way rental business.

The identified manifest problems or disincentives associated with provision of autos for franchisees also served to highlight the movement away from franchising and toward company-owned outlets. AVE was particularly disappointed that franchisees tended to purchase their cars directly from manufacturers whereby the franchisees and not AVE could profit from the resale market. In 2000, AVE announced it was entering a joint venture with Navidec, an e-business computer company, to sell used cars over the Internet, signifying its high regard for the resale market. It was mutually agreed the venture would cease in 2001 at which time AVE entered into a contract with Fiat Auto UK and separately launched a joint venture with Inchcape, an internet-based company, to sell used cars online. Further, franchisees' preference for purchasing cars direct from manufacturers at least threatened to reduce the bargaining power AVE had with automobile companies. Beginning in the early 1980s AVE pursued a pan-European policy of negotiating with eight suppliers on behalf of its overall operations (rather than country by country) making it the largest private buyer of cars in Europe. Today, AVE purchases around 200 000 autos annually from some 30 manufacturers. With more franchisees converted into company outlets, AVE could realise even greater efficiencies in both the purchase and the resale of vehicles for its rental fleet. Mark McCafferty, the CEO of AVE, emphasised the importance of fleet management when in 2001 he stated: 'In our business, you get your short-term cost base right; you make sure particularly that you take on the right amount of fleet... and manage that fleet very effectively'. The importance of purchasing and reselling cars is perhaps highlighted by the fact D'Ieteren (a former franchisee), AVE's controlling shareholder, is Belgium's largest car importer.

Further, introductions of centralised technology as cost drivers for the AVE system served to promote competitive advantage in perhaps a more robust manner than the entrepreneurial skills of

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franchisees as they relate to local markets. Under 'Key Competitive Strengths' in its website, AVE emphasises that technology 'delivers service differentiators and operational efficiencies'. AVE's website has no mention of franchisees exploiting local market knowledge for the benefit of AVE. In addition, a greater emphasis is placed on promoting and sustaining the Avis brand. When asked about the source of AVE's competitive advantage in 2001, McCafferty stressed the importance of technology and in particular Wizard, 'the only large-scale, front-to-back, fully integrated system in the industry'. The Wizard system, which AVE and AVUS have shared for many years, provides low processing costs and outstanding management information for the entire Avis network. McCafferty identified the target customer as one who wants a truly global service. 'Whether we are looking at management information on Germany, Portugal, Croatia or anywhere, we are looking at the same types of data. From a control point of view, from a management information point of view and from a customer information point of view, it gives us a tremendous advantage. Then the brand is (further) recognised around the world'.[5]

In 2003, AVE further increased its cost-reducing strategy that emphasised network-wide technology by partnering with Symbol Technologies and Technological Business Solutions (TBS) to provide the innovative mobile assessment system in order to quickly and accurately identify minor damage to cars at the time of a rental check-in. When a car is returned, an AVE employee uses the hand-held device to quickly scan the car for damage. The cost of repair including parts can automatically be determined and then at the time the rental customer can agree to assume the final rental charge. There should be no need for further follow-up with the customer. AVE's fleet records are then updated with the damage information being downloaded to the Wizard system. According to Randal Tarn, Director of Fleet and Operations of AVE: 'This new system saves considerable time, with appraisals being completed in just 2 min. It also ensures that crucial customer information and signatures are not lost. Symbol and TBS really came to us with a complete solution for our need to put the customer service first'.

Also, in 2003, AVE entered into 5-year contract with Vanco to modernise its communications network in order to enhance access to data and integrate with Wizard, its online reservation system. The improved network will provide greater bandwidth and initially consolidate AVE's network at 1755 company outlets in 14 countries. It may be later expanded to its 1300 franchises. The network is expected to provide AVE with a basis to undertake many IT projects with a focus on reducing costs.

It was in 2000 that AVE chose to partner with Aspect Communications Corp., the top provider of customer relationship portals. The Aspect software provides AVE with the ability to integrate existing data systems with AVE's customer service contact centres, one in England and the other in Spain. In particular, AVE will be more effective in planning and managing customer relationships and reacting to changing business conditions. These call centres are the principal means of communication for AVE's customers. Again, AVE continues to look for cutting-edge technology that will improve its overall operational efficiencies and heighten customer service thereby distinguishing itself in a highly competitive market.

CONCLUSION

By the late-1980s, AVE began converting its franchisees into company outlets. It is clear from the above analysis the expectations for and behaviour of franchisees were converging with that of outlet managers. Quite telling was the fact that franchisees were monitored as closely as company managers. Further, there was little evidence of compelling local entrepreneurship on the pan of franchisees. On the contrary, the emphasis was being placed on one-way rental hires and national markets. Hence, company-owned airport and inner city sites became increasingly important. To the extent franchisees were notably entrepreneurial, it proved inconsistent with the interests of AVE. In particular, franchisees preferred to purchase their own vehicles from manufacturers and thereby deny AVE the opportunity to resell the vehicles in addition to capturing the leasing revenue.

AVE has pursued a parallel strategy to that of AVUS's. First, according to McCafferty, AVE's CEO, AVE and AVUS 'work together extremely

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closely because we share the same core technology and the same brand'. He added: 'As far as the market is concerned we are one business'. AVE and AVUS simply cater to separate geographic markets. Second, like Europe, the US market is mature with a few dominant players in fierce competition. The emphasis is very much on enhanced customer service and cost reduction, promotion of brand name, and consolidation. In particular, adoption of network-wide technologies, extensive use of alliances (e.g., airlines), as well as consolidation (including franchise buy-backs and rival takeovers) have been the principal driving forces for Avis. Indeed, the significant adoption of technology in recent years has coincided with notable consolidation. Budget, a leading competitor, was purchased in 2003. Also, recently, ownership redirection has been highlighted with notable franchise buy-backs. In 2003, AVE bought its largest franchisee, a French firm that accounted for nearly 2% of AVE's total revenue in 2002. In 1997, AVUS purchased its two largest franchisees. In 2001, the largest remaining franchisee was bought. As a result, its franchisees accounted for less than 10% of AVUS's US revenues.

Indeed, though many explanations of franchising find support in this case study, the ownership redirection theory of franchising is especially applicable. Over time as the car rental market matured, it is true that the entrepreneurial contributions of franchisees proved less valuable to AVE, the franchisor. However, it was not so much because the franchisor learnt what the franchisee knows in terms of local knowledge as Minkler (1992) for example argues. It was largely because of the superior entrepreneurial activity of the franchisor. AVE emphasised the adoption of cost-saving technology with network-wide application. It did so through strategic alliances, particularly partnerships.

There is much scope for future research. To what extent will AVE continue to buy back its franchisees? To what extent will the newly acquired Budget, which has a significant franchise network, undergo ownership redirection? Will there be further industry consolidation? Is ownership redirection an important strategy for rivals in countering AVE's dominant position in the market? Will AVE offer franchises in China or will it concentrate on establishing joint ventures as it expands into this promising market?

NOTES

1. Interestingly, Coase (1937) in his pioneering paper highlighted the importance of the entrepreneur as the 'entrepreneur–coordinator' responsible for creating contracts and having the 'authority' to coordinate resources within the firm. Niman (1991) further articulates the close connection between the entrepreneur and a firm's organisation structure. He argues that institutional innovation is as important as product and process innovation, all tasks attributed to the entrepreneur.
2. Marshall's (1920) insight is worth consulting. In particular, see his analysis of localised industries in Book IV, Chapter X and discussion of business management with special attention to the 'undertaker' (i.e., entrepreneur) in Book IV, Chapter XII of his *Principles*. Indeed, not only did Marshall recognise the importance of local knowledge but also its tacit or particularly personal nature. See Polanyi (1962) for the seminal treatment on tacit knowledge.
3. Minkler applies a mainstream Austrian (indeed Kirznerian) approach that embraces the coordinating efforts and 'tendency toward equilibrium' ascribed to entrepreneurial activity.
4. Reid (1987b, p. 34) asserts: 'It is possible, and indeed potentially very fruitful, to look at the case study as a distinct method in its own right, rather than as an adjunct to established methodologies....' Elsewhere, Reid (1987a) reminds economists of the importance Adam Smith and Alfred Marshall placed on the direct examination of business reality.
5. In September 2003, McCafferty announced his leaving AVE for 'other opportunities'. His departure would be effective in early 2004 after having served as CEO for the past 5 years. In acknowledging McCafferty's contributions. Sir Bob Reid, AVE's chairman, stated: 'Mark has taken the company through expansion and, more recently, turbulent times. By making difficult decisions on organisation and investment expenditure, he has ensured its (AVE's) continuing leadership'.

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