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## Zipcar - The best new idea in business

**Zipcar has already persuaded young urbanites to share wheels. Now the movement is going mainstream - and players like Hertz and Ford want in.**

By [Paul Keegan](#)

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(Fortune Magazine) -- Scott Griffith enters the parking lot outside his office in Cambridge, Mass., pulls out his iPhone, and taps a button on the screen. Suddenly a yellow Mini Cooper starts honking like a crazed goose.

Griffith approaches the vehicle and taps the screen again. The doors magically unlock, and under the steering wheel the key dangles from a cord. He starts up the car -- nicknamed "Meneus" -- and drives away at a rate of \$11.25 an hour.

Griffith is the 50-year-old CEO of the car-sharing service Zipcar, but he's also just one of the 325,000 members who rely on the company's handy, gassed-up cars to get around.

Just a few years ago the notion that you could persuade upwardly mobile professionals to share cars would have seemed as far-fetched as being able to unlock a car with a telephone. But what started as a counterculture movement in places like Cambridge and Portland, Ore., has gone mainstream.

You can now find Zipcars in most major U.S. cities, including Seattle, San Francisco, Atlanta, Chicago, and New York, and in college towns like Ann Arbor and Chapel Hill, as well as in Britain.

Zipcar's annual revenues are \$130 million, and the company is growing about 30% a year. Griffith says that Zipcar will turn a profit for the first time in the third quarter of this year, and he hopes to take the company public next year.

### Netflix for cars

For drivers who already share movies via Netflix and stream music rather than buying CDs, the idea of sharing a car is the natural extension of a hip, financially smart, and environmentally conscious urban lifestyle.

After all, drivers who give up their cars and switch to Zipcar say they save an average of \$600 per month. Car sharers report reducing their vehicle miles traveled by 44%, according to Susan Shaheen of the University of California at Berkeley, and surveys in Europe show CO<sub>2</sub> emissions are being cut by up to 50% per user.

"When I meet another Zipcar member at a party or something, I feel like we have something in common," says Francis Smith, a photographer who lives in Brooklyn. "It's like we're both making intelligent choices about our lives."

Businesses are catching on too. About 8,500 companies have signed up for the service, including Lockheed Martin ([LMT](#), [Fortune 500](#)), Gap ([GPS](#), [Fortune 500](#)), and Nike ([NKE](#), [Fortune 500](#)). So have 120 colleges and universities, such as Carnegie Mellon and the University of Miami.

Zipcar is also marketing its technology -- the hardware and software that keep track of the cars -- to city governments. Washington, D.C., retrofitted its fleet this year using Zipcar's wireless systems and estimates that the move will save it \$1 million a year. "It's just such a no-brainer," says Ralph Burns, who manages the D.C. government fleet. "Agencies putting their budgets together for next year are calling me up and



PHOTO: DAVID YELLEN

Scott Griffith, CEO of Zipcar

### How Zipcar works

#### 1. Book

Make a reservation at the Zipcar website or with the iPhone application, which launches in September. Your information is transmitted wirelessly to the car's onboard computer system.

#### 2. Unlock

Wave your Zipcard at the car's reader on the windshield or press a button on the iPhone app to unlock the car and enable the starter (keys are inside). The iPhone can also make the horn beep to help locate the car.

#### 3. Fill up

If gas gets low, you can fill up free using the special charge card in the car. As you drive, beware of breaking the rules: Smokers have been ratted on by fellow Zipsters who spied them puffing away.

#### 4. Extend

If you're running late, call or text Zipcar and an automated system recognizes your number and lets you extend the rental. Forget to call and you'll be charged a late fee of \$50 per hour plus the regular hourly rate.

#### 5. Clean up

Zipcars are cleaned out and washed weekly, though some members have complained of detecting traces of the previous occupant, such as the hard-to-erase smell of fast food.

saying, "Ralph, I've got 25 cars I want to get rid of!"

Though car sharing is an audacious challenge to the whole principle of car ownership -- each shared vehicle takes up to 20 cars off the road as members sell their rides or decide not to buy new ones, says Shaheen -- the auto industry is increasingly realizing it has little choice but to play ball.

Toyota (TM) and Ford (F, Fortune 500) have already begun exploring ways to work with Zipcar, from using its members to test electric cars to designing vehicles specifically for the sharing market.

"The future of transportation will be a blend of things like Zipcar, public transportation, and private car ownership," says Bill Ford, Ford's executive chairman. "Not only do I not fear that, but I think it's a great opportunity for us to participate in the changing nature of car ownership."

Perhaps the clearest indication of how big the car-sharing market could become is the entrance of rental giants such as Hertz (HTZ, Fortune 500), Enterprise, and U-Haul. Hertz launched a service in December in New York, London, and Paris that freely copies Zipcar, right down to the forest-green tones of its website and emphasis on a caring "community" of users.

Zipcar, meanwhile, may have sold its customers on the benefits of sharing, but the company isn't about to share the market it popularized without a fight.

### Broadening appeal

As Griffith pilots the Mini Cooper across the Charles River into Boston, he says that as car sharing enters the mass market, the original Zipster demographic -- young, college-educated, higher-income, environmentally conscious, techno-savvy Facebook and Twitter users -- is gradually becoming older and more reflective of the national average.

"I've been surprised to see good growth among empty-nesters," he says. "People who moved back into the city after raising kids and are now dumping their cars."

The broadening appeal of car sharing comes as no surprise to Robin Chase and Antje Danielson, the two women who founded Zipcar in Cambridge in 2000. (CarSharing Portland, the first such service in the U.S., was started in 1998.)

At 42, Chase was an MBA from MIT with a previous career in public health, and Danielson was a geochemist running a program at Harvard that explored ways to reduce carbon emissions (she left the company within two years).

Taking advantage of advances in Internet and wireless technology, Zipcar was able to keep track of a growing fleet of fuel-efficient cars and attracted thousands of members in its first three years. Zipsters were so passionate about the service that they gave their cars cute names and waved to each other as they passed on the street.

Chase expanded to New York and Washington, D.C., but when an expected \$7 million round of financing fell through in 2002, the board eased her out in favor of Griffith, an engineer with more big-league experience, who took over the following year.

An MBA from the University of Chicago, Griffith had been an executive at Boeing and Hughes Aircraft and ran two startups, a database firm that was sold for a reported \$25 million in 1999 and a software company that shut down in 2001.

As much as Zipcar hates being compared to traditional car rental (its real competition is car ownership, Griffith argues), Avis (CAR, Fortune 500) and Hertz are really the type of business Zipcar most resembles.

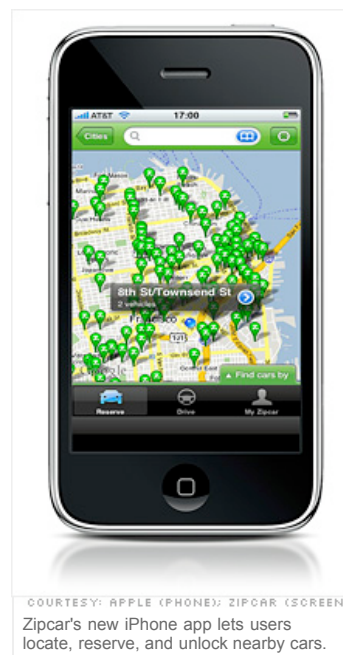
But there are crucial differences. Rental agencies ask consumers to travel long distances to a centralized hub, stand in line, fill out paperwork, pay only by the day or week, and shell out for insurance, gas, and often mileage charges. They give you the keys to whatever generic car happens to be available that day.

Zipcar, meanwhile, charges \$50 a year for a basic membership but makes it easy to make an online reservation for a specific car parked in your neighborhood (Mini Coopers, Mazdas, and Toyota Priuses are popular).

You pay an hourly or a daily rate; the price varies depending on the city, car, and day of the week (the daily rate starts at around \$60). Insurance and gas are included -- up to 180 miles daily -- and the car feels as if it belongs to a friend.

There are lots of rules: Don't smoke or leave trash in the car, keep your pet in a cage, leave the gas tank at least one-quarter full, call to extend your reservation if you're running late, etc. "Our business model depends on the kindness of others," says Griffith.

After taking over as CEO, Griffith curbed Chase's rapid expansion plans and focused on getting the business model to work in a single



COURTESY: APPLE (PHONE); ZIPCAR (SCREEN)  
Zipcar's new iPhone app lets users locate, reserve, and unlock nearby cars.

neighborhood, such as Chelsea in New York City, before moving on to other areas. Rather than parking cars wherever it could find a spot, the company created "pods," or groups of cars in parking lots or garages, so if one car was taken, others would be available in the same location.

They created memorable marketing campaigns like the one in Harvard Square, where they packed a Mini Cooper with frozen meatballs and asked people to guess how many were inside. Later, in San Francisco, they let people take a sledgehammer to an old SUV, that enduring symbol of wasteful car ownership. Zipcar also teamed up with local retailers to target its marketing to the specific character of each neighborhood.

To keep the company afloat, Griffith raised \$35 million from blue-chip players Benchmark Capital and Greylock Partners. He stocked the fleet with BMWs, those totems of conspicuous consumption, which alienated some Zipcar staffers and members.

Though the company's mission statement still pledges to "change the world through urban and environmental transformation," Griffith uses the very same language to describe what was wrong with the company when he came onboard. "It was a very mission-oriented culture -- save-the-world, change-the-world culture," he says. "We had to put a performance-based culture in place." (Counters Chase: "We were performance-based since the beginning of time.")

Zipcar's competitors in the nonprofit world relish tweaking Griffith for sending what Scott Bernstein of the Center for Neighborhood Technology in Chicago calls a "mixed message" -- Save the world while driving a Beemer!

Since car sharing came to the U.S. in the late '90s, a handful of nonprofits, many partially funded by taxpayer grants, have entered the business and grown from some 6,000 members nationwide to an estimated 44,000 today.

They argue that they are better able to focus on the public benefits of car sharing -- reducing traffic congestion and greenhouse-gas emissions, coordinating with public transportation, and serving poorer communities -- because they don't have to worry about turning a profit or pleasing shareholders.

In 2002, for example, Bernstein's group started a service in Chicago called I-GO that serves both affluent areas and low-income neighborhoods such as South Shore and Bronzeville that Zipcar acknowledges it has ignored because they are not profitable enough (in January, I-GO teamed up with the Chicago Transit Authority to create a joint smart card that works with both public transportation and I-GO cars).

Griffith's hard-charging manner has alienated some of his nonprofit competitors. As Zipcar was preparing to launch in Chicago in 2006, he asked Sharon Feigon, I-GO's CEO, for a lunch meeting. She says that when Griffith asked her what her exit strategy was, she replied she didn't have one; I-GO would keep growing and serving Chicago. Then she remembers being taken aback by his next comment. "He looked me in the eye and said, 'You can't expect to survive. We're going to crush you.'" (Griffith remembers the lunch but denies saying anything remotely like that. "That's an outright lie," he says.)

### **The ecological payoff**

One thing everyone can agree on? The radical environmental benefits of sharing cars. The high cost of car ownership -- AAA pegs the average at \$8,000 a year -- motivates people to drive even when they don't really need to. (Hey, if you're paying for the car, might as well use it.)

Paying by the hour, meanwhile, creates a strong incentive to cut back. The Canadian car-sharing service Communauto calculates a 13,000-ton reduction in CO<sub>2</sub> emission by its 11,000 members in Quebec and says that number could skyrocket to 168,000 tons per year with widespread adoption in the province.

Zipcar's expansion was well-timed to ride the wave of environmental awareness sweeping the country, and by 2007 the company had launched in San Francisco, Chicago, Vancouver, Toronto, and London, and its membership had soared to some 120,000.

That year Griffith took a gamble by acquiring Zipcar's chief rival, No. 2 Flexcar, which was 85% owned by AOL founder Steve Case's holding company, Revolution. In the stock deal, Revolution became Zipcar's largest shareholder, holding a minority stake. (Zipcar won't say what percentage Revolution owns.) It was a defining moment for the young company. With operations in 15 cities in the U.S., Canada, and England, Zipcar had suddenly become the fledgling industry's giant.

### **A brutal, complex business**

The nonprofits may view Griffith as a cold-hearted capitalist, but Hertz may end up making him look like a pussycat. Only a few months after its launch, Connect by Hertz already has 460 cars in 175 locations in Manhattan and 8,000 members, and vows to grab at least half of a global market that it says will balloon to \$800 million over the next five years.

Hertz has many built-in advantages: It can get volume discounts on cars, mobilize its huge fleet and customer-support call centers, invest heavily in each city, and absorb losses if it wants to start a price war.

Zipcar, on the other hand, has 10 years of experience, positive brand identification, a highly automated service that works extremely well, and a proven record establishing cozy relationships with neighborhoods that a corporate behemoth like Hertz may not be able to match.

Not to mention urban hipster cred. When Griff Long, Hertz's senior director of global car sharing, appropriates activist slogans by saying things like, "As I tell everyone in the operations team, we think globally but act locally," it almost makes you wince.

While Hertz is jumping in with both feet, U-Haul and Enterprise are still testing the waters. U-Haul's U Car Share launched in 2007 but exists in only a handful of cities, and Enterprise's WeCar, begun last fall, has confined itself mostly to university, government, and corporate locations such as Google's Silicon Valley campus.

"It's a brutal and complex business," says Zipcar founder Chase, who went on to start a ride-sharing service called GoLoco. "You have to get the technology, marketing, branding, and operations right. If you fall down in any one of those four areas, you will fail."

The fact that Zipcar has managed to get all those areas mostly right is forcing some in the auto business to take notice. "We need to be innovative in thinking about the way cars interface with society," says Bill Reinert of Toyota's Advanced Technology Group. For example, Toyota could make special car-sharing vehicles that don't allow smoke, body odor, or perfumes to cling to the interior surface materials.

Bill Ford believes that just about everything should be on the table: letting customers bring their car back to their dealer, for example, to exchange it for a convertible for a trip to the beach or an SUV for a family vacation. Or letting Zipsters test-drive innovative new models like electric and plug-in hybrid cars before they are offered to the general public.

"Zipcar is the perfect application for electric vehicles and plug-in hybrids because you leave them at a certain location to be charged and then take them out again," says Ford.

In a survey, 80% of Zipsters said they want to drive an electric vehicle, though it's not clear it would be a slam dunk from a business point of view, as Zipcar could lose rental revenue while the cars are charging. Nonetheless, Zipcar is currently allowing members in San Francisco to test a converted plug-in Toyota Prius and hopes to get its hands on the new all-electric Ford Focus before its debut in 2011.

"Ford is the only American-branded company in the auto industry that seems to understand what we're doing and has some affinity for what we're up to," says Griffith, who is also talking to Toyota, Nissan, Honda, and BMW about how to work more closely together. "I think for a long time the auto industry was trying to decide whether Zipcar was friend or foe, but now they're realizing that there are bigger forces working against the auto industry, especially in cities, that are only going to result in Zipcar getting bigger."

Returning from his trip to Boston, Griffith pulls the yellow Mini Cooper back into the parking lot across from his office. If he can persuade even a tiny fraction of the world's drivers to perform this new ritual -- just imagine the appeal of car-sharing in expensive, traffic-snarled, polluted megacities from Hong Kong to São Paulo -- Zipcar could well become the enormous business he envisions.

"We're going to be the market leader of an industry with a \$5 billion to \$10 billion growth curve," he declares with bravado. He locks the car by tapping his iPhone, and heads out of the garage, back to his mission of turning car owners into Zipsters. ■

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