

Inc.

The Handbook of the American Entrepreneur

November 2007

NOTHING BUT GREEN SKIES

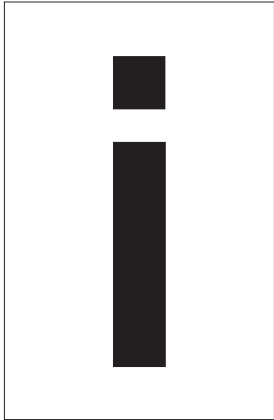
THE GREENING OF EVERYTHING

Sustainability isn't just about venture-backed tech firms and big manufacturers. In this, Inc.'s Second Annual Eco-Advantage issue, we look at how green business practices are transforming the stuff of everyday life.

Including the world's greenest:
RENTAL CAR COMPANY

SURVIVOR "We are not a not-for-profit," says Andy Taylor. "What we're doing, we're doing for the long-term sustainability of our business."

Enterprise Rent-A-Car is one of the nation's top family-owned businesses, a \$12 billion behemoth that dominates its industry. But CEO Andy Taylor feared it all could vanish in a puff of CO₂. It was time to get greener. And quick **BY ALISON STEIN WELLNER**



IT IS A LATE afternoon in September at the world headquarters of Enterprise Rent-A-Car, in Clayton, Missouri, a suburb of St. Louis. For several hours, the company's senior executives have been filing

in and out of the largest conference room—the one with the massive dark wood table and plush leather chairs that's reserved for truly important events—to quiz two visitors from a little San Francisco company called TerraPass. Through the wall-sized window, the assembled can see that drive time has just begun on Forest Park Parkway—traffic is moving but growing more congested. Enterprise owns 1.1 million vehicles, the largest fleet of rental cars in the world, and there's a good chance that more than a few of them are contributing to the gathering mess outside. Indeed, that's why the leaders of Enterprise, with 65,000 employees and about 6,000 offices nationwide, are meeting with TerraPass, a 14-employee San Francisco-based upstart that specializes in carbon offsets, a newfangled tool that lets eco-conscious consumers fund green energy projects to compensate for polluting behavior, like flying an airplane, heating a home—or driving a car.

Enterprise has been toying with the idea of offering carbon offsets for a couple of years. Now, with all of its questions answered, the decision has been made. Pat Farrell, the company's vice president of corporate communications (and soon to be the vice president of corporate responsibility) pulls his chair next to Alicia Seiger, vice president of business development at TerraPass. They uncap their pens. As they sign on the dotted lines, a beaming Tom Arnold, TerraPass's chief environmental officer, takes out his BlackBerry to snap a picture, which he promptly e-mails back to his office. "I have to share this with my team," he says.

The event is historic for both organizations. Enterprise has just agreed to a program that will enable its retail customers to offset the pollution created by their rentals—a program that promises to render the use of even a gigantic Cadillac Escalade (which weighs more than 5,000 pounds and gets 14 miles per gallon) "carbon neutral." What's more, in an unprecedented move, Enterprise will match its customers' offset purchases dollar for dollar (up to \$1 million). When the program kicks off on January 1, 2008, it will make Enterprise the first major rental car company to offer a car-

bon offset option in the United States. (Avis offers it in the far smaller European market.) TerraPass, for its part, has just landed one of its largest clients. If it succeeds, the program promises to enlist millions of drivers and offset millions of pounds of carbon-dioxide emissions—as well as catapult a car-rental company, of all things, to the top ranks of eco-conscious companies.

THE IRONY, OF COURSE, IS RICH. But Enterprise is no stranger to rewriting the rules. Most rental car companies, for example, do the bulk of their business at the airport, renting vehicles to travelers. Enterprise has grown by opening branches in cities and suburbs, mostly serving those who need a rental while their own cars are in the shop. The strategy took the industry by surprise and sent Enterprise's fortunes soaring. The company was founded by Jack Taylor with just seven vehicles in 1957. By the time his son Andy Taylor took over as the second CEO in 1991, Enterprise had about 100,000 vehicles and revenue nearing \$1 billion. Since then, the company, which remains private and 100 percent owned by the Taylor family, has grown at an even more rapid pace: In 2007, just in time for its 50th birthday, Enterprise's fleet size passed the one million mark and revenue will hit \$12 billion. In August 2007, the company purchased rivals Alamo and National. It now has an office within 15 miles of 90 percent of the U.S. population.

Yet several years ago, when Andy Taylor began thinking about what his company might look like 50 years down the road, he was nervous. In fact, it wasn't at all clear to him whether there would be much of a company at all.

For Enterprise to thrive, it needs cars on the road—lots of them. It also needs lots of fuel, readily available and at affordable prices. And most of all, it needs the act of driving a car itself to remain noncontroversial and socially acceptable. In a car culture like ours, it's hard to imagine that driving could become *outré*. But there's precedent for massive and unexpected social and economic shifts that upend entire industries. (Cigarette, anyone?)

These days, any company involved with automobiles and fossil fuels is vulnerable. Several states, including New York and Vermont, have imposed tough new emission regulations, sparking lawsuits by automakers; California recently sought billions of dollars in compensation for environmental damages already sustained. Consumers, meanwhile, are increasingly concerned about global warming. According to a January study by the Pew Research Center, more than three-quarters of Americans believe there's solid evidence that the earth is warming, up seven percentage points from June 2006. The share that believes human activity—like burning fossil fuels—is to

blame increased to 47 percent from 41 percent over the same period.

The rental car industry has not had its moment in the great green glare of shame, but it's hard not to notice that Enterprise, as the owner of the world's largest fleet, would make a nice juicy target. The company, Taylor believes, needs to get out in front of the issue. So over the past two years, Enterprise has been piecing together an ambitious, multipronged environmental strategy. Under the offset program, as many as 20 million customers will have the option to purchase an offset when they make reservations online or over the phone. (The offer also will be available to National and Alamo customers.) Enterprise also has pledged to plant a million trees a year, purchase more cars that run on ethanol and other alternative fuels, and print its corporate magazine on recycled paper. If such programs are embraced by consumers, the company intends to add more. "I don't want to give you the impression that we're just about doing really good things," says Taylor. "We are not

est in the environment. In 2002, Jack Taylor gave \$30 million to the Missouri Botanical Garden to catalog and preserve plants all over the world and was looking for other ways to have an impact. "My father is 85, and although he is in good health, he is always thinking about his legacy," says Andy Taylor, who speaks with his father every day. So when the senior staff met with the younger Taylor to discuss plans for marking the company's 50th anniversary in 2007, a focus on the environment seemed to be in the air.

Farrell and Miller had been researching the subject and soon came across the idea of carbon offsets. Offsets had grown increasingly popular among individual eco-conscious consumers, but aside from explicitly socially conscious companies like Stonyfield Farm and Whole Foods, few corporations had embraced them. But to Farrell and Miller, the appeal was obvious. With offsets, Enterprise could let customers mitigate the emissions created by their rentals—without requiring them to change their behavior in any

ENTERPRISE AT A GLANCE

Enterprise has the world's largest fleet of rental cars (1.1 million), as well as the largest number of fuel efficient or hybrid vehicles. Here are some other facts about the company:



a not-for-profit. What we're doing, we're doing for the long-term sustainability of our business."

ENTERPRISE'S GREEN EFFORTS have their origins in a pair of events that were unrelated to each other and only tangentially related to the environment. In 2000, Enterprise was served with a class action discrimination lawsuit, brought by a group of African American employees. Two years later, the company settled for \$2.3 million, admitting no wrongdoing. Still, Taylor decided that it was time to institute a new era of corporate responsibility at the company. He created a new executive position, vice president of corporate responsibility, and asked a longtime employee named Mark Miller to figure out what approach Enterprise should take. He asked Pat Farrell to work with Miller, and all three agreed that no initiative would be complete without a focus on the environment.

As it happens, Taylor's father had recently taken a serious inter-

other way. (See "Going Carbon Neutral," page 119.) Of course, that very fact has drawn intense criticism from some in the environmental movement, who argue that offsets are a guilt-relief mechanism for polluters, rather like an indulgence sold at one time by the Catholic Church to absolve someone of sin. Offsets, critics say, do nothing to actually change polluting behavior.

But dealing with prickly environmentalists wasn't the only problem. For one thing, offsets could be a tough sell. When Farrell broached the subject with people he'd run into casually in the hallway, he got a lot of blank looks. Would consumers even get it? And speaking of customers, was it really such a great idea to remind customers that they were engaging in a carbon emitting, global warming act when they rented a car? Who would administer the program? The offset market was fairly new, with few established players. But the biggest issue was this: An offset would be something additional that customers could purchase and add on to their rental, like a ski

rack or a GPS. It wouldn't be something that Enterprise would pay for directly. Farrell worried that this would look like Enterprise was asking its customers to pay for the company's environmental impact. "I didn't want it to look like we were waiting for our consumers to simply write a check for us," Farrell says. Enterprise wanted to do something about its gas-guzzling, polluting fleet of vehicles. Figuring out what, however, was proving more difficult than anticipated.

ENTERPRISE DECIDED TO PUT the offset program on hold and shifted its attention to other projects, most notably fleet efficiency. The company already had 3,000 hybrids on the road. Matt Darrah, senior vice president of North American operations and the man responsible for the company's relationships with auto manufacturers, let his contacts know that Enterprise wanted to do more. The company, he said, would be willing to try any vehicle with a new, fuel-efficient alternative technology. Because many people treat a car rental as a kind of extended test drive for their next vehicle purchase, this could be a way for manufacturers to get new technology out in front of potential buyers. In 2006, Enterprise made its first significant purchase: 41,000 flex-fuel vehicles, most of them from General Motors, that can burn either gasoline or ethanol. The cars were placed at branches located near filling stations that sold ethanol. Enterprise created in-car marketing materials, with maps showing the location of the gas stations, and trained staffers to encourage renters to fill the tanks with ethanol instead of regular gasoline. "We'll do the same for hydrogen, fuel cells, whatever comes next," says Darrah.

Environmental behavior was taking hold at Enterprise in other ways, as well. In 2006, for example, the Arbor Day Foundation, which works with the U.S. Forest Service, came calling, asking for a donation. With Enterprise's 50th anniversary less than a year away, Andy Taylor, a big believer in public-nonprofit-private alliances, committed Enterprise to contributing \$50 million to planting 50 million trees over the next 50 years. Separately, the Taylor family contributed \$25 million to the Donald Danforth Plant Science Center in St. Louis to create the Enterprise Rent-A-Car Institute for Renewable Fuels, with the mission of finding new plant-based fuels.

Meanwhile, out in Los Angeles, Greg Stubblefield, head of Enterprise's operations in California and Hawaii (he now runs the National and Alamo divisions), received an intriguing phone call from a tiny outfit called TerraPass, which wanted to talk about something called carbon offsets. Stubblefield was always receptive to hearing about environmental initiatives, as the California market is particularly sensitive to the subject. Back in St. Louis, as it happened, Farrell was taking another look at offsets. Barely a year had passed since he'd tabled the idea, but the concept was making a big splash. Al Gore's *An Inconvenient Truth* had hit the screens

and the media was buzzing; even artists like the Rolling Stones and Coldplay had begun using offsets to neutralize their carbon emissions. Farrell was researching potential vendors and TerraPass kept coming up. He called Stubblefield and asked him to check it out.

Stubblefield went to San Francisco and was intrigued by what he learned. Founded by a group of Wharton School grads in 2004, TerraPass had created a way to calculate the amount of carbon emissions consumers generate when they drive, fly, or heat or cool their homes, and how much investment in green power it would take to neutralize those emissions. The company figures that it takes \$9.95 to offset 2,500 pounds of carbon dioxide, roughly what an airline passenger is responsible for on a 6,000-mile flight. The company works with three types of green energy projects: wind farms, "cow power" (in which methane is harvested from cow manure and used to power generators that feed electricity back into the grid), and capturing landfill emissions. Like most people, Stubblefield was especially tickled by the cow manure solution. As soon as he heard about it, he rang

Farrell up to give him an earful on biomass. Stubblefield also approved a small project. Enterprise had a vanpool business in California. TerraPass offered to provide free carbon offsets to existing vanpools and sell them to drivers as new vanpools formed. "We wanted to demonstrate that we could work together before we did anything more adventurous," says TerraPass's Tom Arnold.

Stubblefield was excited by the TerraPass deal and wanted to go further. He suggested a pilot project, offering offsets to renters in California. But when Farrell checked with the company's IT staff, he learned that creating the infrastructure to handle the carbon offset logistics for a market the size of California was a huge project. From an IT standpoint, the company might as well go nationwide from the get-go.

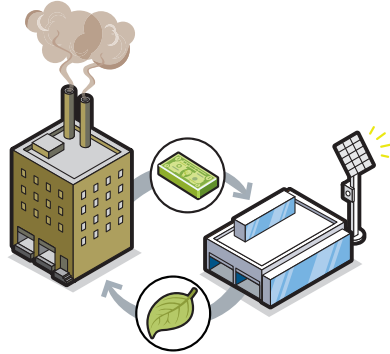
Were consumers ready for something so ambitious? The company surveyed consumers and was surprised by the response. Not only were consumers aware of carbon offsets, 45 percent said they were either "a little" or "a lot" more likely to rent from a company that offered them. "It moved the needle," says Holly Campbell, a vice president of marketing. TerraPass, for its part, had been trying to determine the best way to structure the program. Rather than calculating the cost of each individual rental, the company looked at Enterprise's total emissions from the previous year and figured out it could offset that amount by charging customers about \$1 extra per rental. Thirty-six percent of consumers, as it happened, said they'd be "very likely" to pay \$1 for a carbon offset. It seemed that this program would not alienate renters. In fact, it might enhance Enterprise's brand.

ON MAY 19TH, 2007, Farrell formally presented the idea to the Taylor family. He received a preliminary nod. But the plan still had to be

Not only were consumers aware of carbon offsets, 45 percent said they were either "a little" or "a lot" more likely to rent from a company that offered them.

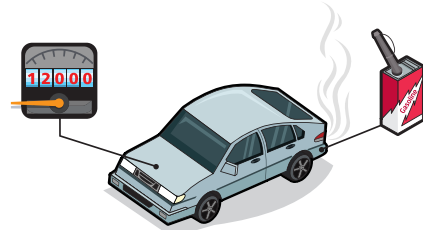
GOING CARBON NEUTRAL

Carbon offset programs let you clean up the environment—even as you continue to pollute it. It seems too good to be true and many are skeptical. But there is a logic to offsets. Here's how they work:



Offsets have their origins in emissions trading programs, in which companies that produce high levels of greenhouse gases (usually large manufacturers) purchase credits from businesses that have lowered their emissions below a certain threshold. The polluting credits are traded on the Chicago Climate Exchange. It's kind of like paying someone to diet for you: At least someone is losing weight. And the overall amount of CO₂ is capped.

More recently, individuals and small businesses are using offsets to “neutralize” the pollution they create when doing things like driving, flying, or heating or cooling their offices and homes. Offset providers have figured out how to put a price tag on your polluting behavior.

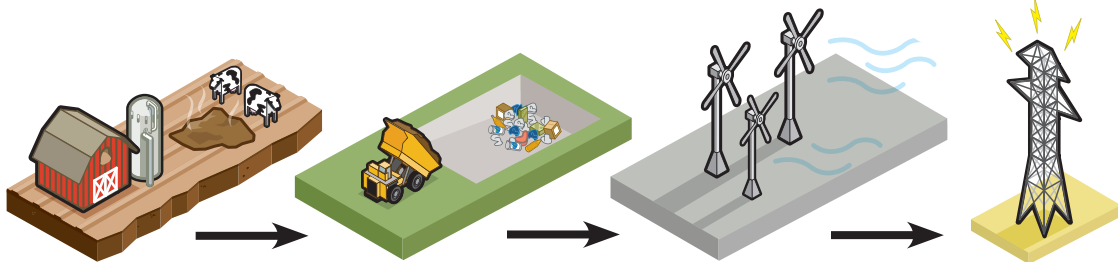


Say you own a 2001 Saab 9-3 and drive 12,000 miles a year (the U.S. average). Given your car's fuel efficiency, you're using nearly 500 gallons of gas a year and sending 9,586 pounds of carbon dioxide into the atmosphere. Feeling guilty? TerraPass estimates that it takes \$49.95 to offset 10,000 pounds of CO₂.

You write a check, the money is put into an environmental project, and your personal CO₂ emissions are “neutralized.” Some offset providers use the funds to plant trees. The idea is that they will help remove carbon from the atmosphere once they mature. This approach has drawn criticism, since the carbon offsetting won't happen for many years.



Other providers think more like venture capitalists, using the offset funds to help finance alternative energy projects that are promising but have trouble attracting investors. TerraPass, for example, supports three broad categories of projects.



Cow power
Farm-based technology that gathers methane from cow manure and converts it into electricity

Landfills
Projects that capture and burn the methane produced by putrefying garbage

Wind
Offsets are used to purchase electricity from, and finance the development of, wind-power projects.

Powering the grid
Power generated by the farm and wind projects goes directly into the power grid, bringing green power to millions.



GREEN THUMB To celebrate Enterprise's 50th birthday, Taylor pledged \$50 million to plant 50 million trees over the next 50 years.

10 Questions for Andy Taylor

What's your favorite part of a typical day? *When I'm talking to customers and employees.*

What's the least glamorous thing you do regularly in the line of duty? *I shine my shoes myself at least two to three times a week.*

What skill would you most like to improve? *Patience. There's an expression around here called Taylor Time. If you have an appointment with me, you better be 10 minutes early.*

What makes for a good salesperson of your product? *The people who are the most successful are the ones who listen most closely to the customer. We follow the two ears, one mouth rule here.*

If you could go back in time and do one thing differently in your business, what would it be? *In 1996, we implemented a system to measure customer service. I wish we had done it earlier.*

What part of your job would you gladly give up? *The things that others can do better than me.*

What's the simplest thing you never learned to do? *Golf. I imagine some people would say that it's not very simple, but I don't know any better.*

Who's the smartest person you know? Why? *My father, Jack Taylor, because he was a true entrepreneur, with great values, who listened to his customers and his employees and got this business off the launch pad.*

Who gives you the best advice about your business? *I have to give the nod to my father again. He's been asking the same questions about our business for 50 years: Are our customers satisfied? Are our employees having fun? Are we doing things the right way?*

What keeps you up at night? *I must tell you that I sleep very well.*

approved by Pam Nicholson, the company's COO. He scheduled a meeting. "It sounded interesting to me," says Nicholson. But she was worried. Enterprise likes to boast that it can get a customer into a car in seven to 10 minutes. Would an offset program "fit into the process of how we do business?" Nicholson wondered. Would it overwhelm customers when what they really want is to be on their way? Nicholson presented Farrell with other concerns, as well. How would the options be woven into the rental contract? Could IT handle it? Was there a clear, concise marketing plan? "Every box had to be checked or we couldn't do it," she says.

Nicholson and Farrell decided to start slowly, making the offset option available only to customers who book their rentals themselves, either through the company's national reservation center via an 800 phone number, or through the company's website. The move will reduce the number of rentals that would have a carbon offset available, and hence the program's scope, since rentals that go through the reservation center or the website account for just one-third of the company's total business. (The rest are paid for by a third party, either a corporate partner or an insurance company paying for a rental while a car is being repaired.)

By August, Farrell had addressed all of Nicholson's concerns and brought the completed idea back to Andy Taylor. Taylor called up his sister Jo Ann, who runs the family's foundation, and they chatted about the program. He was troubled by the idea that offsets were something that customers would be paying for and concerned, he says, that it would seem "like we were just doing this for commercial reasons." Jo Ann's answer: Get the company to match the carbon offsets, up to \$1 million, roughly the number of cars in Enterprise's fleet. Soon thereafter, the first contracts between TerraPass and Enterprise were signed.

The launch is set for January 1, 2008. As far as what it means for the environment, a back-of-the-envelope calculation shows that if just 100,000 customers purchase a TerraPass they will offset 12 million pounds of carbon dioxide in the atmosphere (24 million pounds, if you factor in Enterprise's match). That's the equivalent of taking about 2,000 Toyota Corollas off the road. There are lots of uncertainties. The company is still figuring out which green energy projects it will support. How many customers actually will purchase the offset? Will Enterprise receive criticism for making this available to only a third of its customers? "Our commitment is for one year," says Taylor. "We will then step back and see what our customers are saying about it. They may not want it, or we may have to step it up." In the meantime, Taylor is continuing to push his team to bring him more and different programs relating to the environment. "There's not going to be one magic bullet" that will keep cars on the road, fuel affordable, and driving socially acceptable, Taylor says. The important thing is that the company is on top of the problem. "For us, the argument over whether global warming is a problem or not is over," says Taylor. "This is a very daunting challenge that we are facing." ■

Alison Stein Wellner is an Inc. contributing editor.