

***“There is no more single important job or initiative in this company than Performance Excellence.”***



-- Ron Nelson  
August 14, 2007

Performance Excellence  
Executive Introduction

At an assembly of Avis Budget's 70 most senior executives responsible for every location, operation and department worldwide, these were the words that our Chief Executive Officer chose to lead us down the road to **Performance Excellence**.

### **Background**

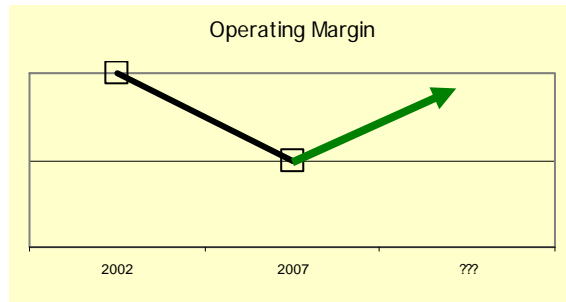
Avis Budget Group's (ABG) operating divisions include the vehicle rental operations of Avis Rent A Car, Budget Rent A Car and Budget Truck Rental. ABG operates these brands in the Americas, the Caribbean, Australia and New Zealand.

Total 2007 revenues are US\$6 billion, 78% of which comes from U.S. car operations. Avis Budget has an extended global reach that includes approximately 6,900 car and truck locations operating more than 425,000 vehicles. In 2007, we completed more than 28 million vehicle rental transactions worldwide.

### **ABG's Strategic Objectives**

Operating margins at ABG, like the rest of the rental car industry, have declined over the past few years, due in large part to

significant inflation in the cost of rental vehicles (10-20% per annum over the past three years), in addition to inflationary pressures in other lines of expense such as wages, benefits and fuel. By the end of 2007, these pressures have caused ABG's margins to decline by roughly 50% from 2002 levels. This decline was the catalyst



for our senior leadership team to identify that the Company must turn to new management strategies and tactics to improve performance.

ABG's 2007 strategic plan focused on three core strategies set out at the beginning of the year: 1) expand revenue sources, 2) optimize our brands, and 3) capture incremental profits. As the year started out, our leadership team began developing initiatives to achieve these objectives. Early on, our CEO, Ron Nelson, our President and COO, Robert Salerno, and our CFO, David Wyshner, developed the idea of a company-wide process improvement initiative based on proven techniques and best practices. They were determined to engender a system-wide commitment to this approach that would go well beyond all previous process improvement efforts.

At this point, Avis Budget lacked in-house resources trained in formal process improvement skills. In March, senior management approached the Vice President of Financial Planning and Analysis at ABG, David Myers, to take on a new full-time responsibility and lead this effort as Global Deployment Leader, and to

bring in outside help to expedite process improvements using tools such as Lean and Six Sigma. By May, the Company had interviewed several candidate firms and selected Breakthrough Management Group (BMG) to assist with our deployment.



So as to be directly aligned with the Company's third core strategy, Mr. Myers and BMG were given a clear objective:

***Develop an implementation plan to improve company-wide profits by \$100 to \$150 million in two or three years while maintaining or improving the quality of our customer service.***

### Deployment Planning—Infrastructure

Immediately Mr. Myers and John Biedry, the Senior Engagement Leader from BMG assigned to Avis Budget full-time, set out to develop plans, identify projects, and start implementing changes to deliver profit improvement results as quickly as possible. Ultimately, the deployment would need to cover all ABG geographic and departmental operations, but we chose to focus early process improvement efforts on Domestic Operations and major back-office processing functions, because initial assessments indicated that the biggest opportunities for improvement would come from these areas.

Early on, the team decided to “Lead with Lean”. Since Avis Budget did not have formal process improvement tools in place, Mr. Myers and Mr. Biedry believed the Company would be able to achieve 80% of the early benefits using the 20% of the easiest tools to learn and deploy, namely Lean.

The first order of business was to develop the infrastructure to support recruiting, training and deployment of the first wave of Performance Excellence (PE<sub>x</sub>) Leaders. To speed implementation, several of the key support organizations (Human Resources, Finance, Information Technology and Corporate Communications) sequestered themselves in a hotel conference room for four days to iron out many of the key questions that would need be answered to begin the deployment, such as:

- How do we define “hard savings” and who is responsible for tracking it? *(Finance would track only savings that would directly result in profit improvements, aligned with our strategic goal of capturing incremental profits)*
- Are the PE<sub>x</sub> Leaders going to work on PE<sub>x</sub> full-time or part-time? *(Full-time)*
- How were our PE<sub>x</sub> Leaders going to be bonused? *(Their PE<sub>x</sub> bonus is based 75% on personal PE<sub>x</sub> success and 25% on company profitability)*
- How would the team identify projects? *(The team ran 15 formal assessment meetings throughout the Company to develop a catalog of projects; to be included, a project idea had to help achieve our strategic goal of improving profits)*

With these questions addressed and approved by senior leadership, it was time to shift the focus to recruiting PE<sub>x</sub> Leaders.

### Deployment Planning—Recruitment

With a strong bench of very experienced management employees throughout Avis Budget, the team was able to focus internally to identify candidates to become trained Performance Excellence

Leaders, while BMG would provide both the training and the experienced Lean Master and Master Black Belts to help jump-start PEx. As time passed and new PEx recruits learned and applied their new skills, the Company would eventually decrease the level of involvement of BMG's resources to be internally responsible for the long-term success of the deployment.

To achieve \$100-150 million of profit improvements in two to three years, Mr. Myers and Mr. Biedry developed a model that recommended that the PEx team be staffed with approximately 70 dedicated PEx Leaders, positioned throughout our operations and geographic locations. The model also developed an aggressive **calendar year 2008 goal of \$40 million of net savings.**

Mr. Myers targeted recruiting up to 15 full-time PEx Leaders in the team's first wave. The direction for who these first team members would be came right from the top:

***Pick your best and brightest since that is the only way the deployment will be successful.***

The first wave, trained the week of July 22, 2007, included the Deployment Leader and 13 dedicated PEx Leaders. The first wave was recruited from each of the five geographic areas of the United States along with employees from several of the largest corporate (shared services) departments. The wave included Vice Presidents, Directors and Senior Managers, all of whom were high-potential candidates. To demonstrate his personal commitment to PEx, ABG President and COO Robert Salerno called each PEx Leader as they were being recruited to help sell the program and its importance to Avis Budget's long-term success.



ABG's 2007 Annual Review Cover

After the first wave was trained, they shadowed BMG consultants for several projects—a form of on-the-job training. When they felt ready, each PEx Leader began working on their own projects with other Wave 1 Leaders as their “wingman” until they were ready to head out on their own.

The first project was run at the Cincinnati airport and focused on shortening the time it takes for shuttlers (car drivers) to get their assignments, locate the appropriate cars and exit the lot. Improving this process has saved our Cincinnati operations over \$100,000 in one year!

In October, the team launched Wave 2 with 15 candidates, which included 5 PEx Leaders from Canada, to begin ABG's International deployment. In March 2008, we trained the Australia and New Zealand PEx Team, and in April 2008, new recruits were trained for Budget Truck Rental. Currently, we have PEx projects running in every major location worldwide, across all our operating divisions.

### **Our Deployment Innovation—Replication**

The Company's plans always contemplated that the PEx team would balance running original (new) projects, and then pick the best of those and replicate them across operations to help standardize

these processes. However, early into the deployment we realized that by focusing dedicated Replication PEx Leaders at the biggest airport locations, the team could expedite cost savings even more.

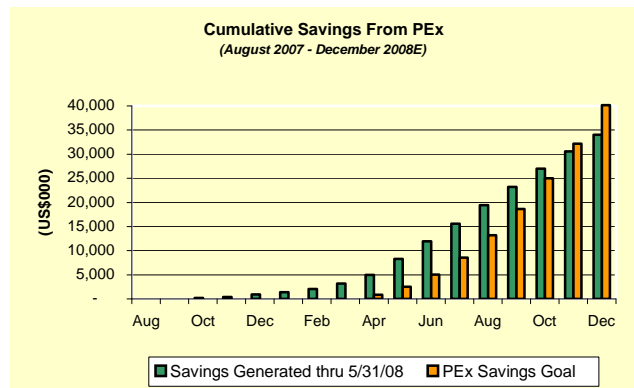
In January 2008, Mr. Myers refocused recruiting efforts to bring in two waves of PEx Leaders selected from the biggest airport locations to focus on 1) replicating solutions nationwide and 2) ensuring that gains from prior projects would be sustained by verifying, on site, that process changes remain in effect.

By shifting to focus dedicated resources on replication, the team was able to take its first project (Shuttler Assignment) and replicate it throughout the U.S. and Canada in two months and save more than \$3.3 million. These teams are now concentrating on replicating other projects that have been successfully implemented at an initial location. As a result, savings have grown exponentially.

### Impact to Date of PEx

From having the first PEx Leaders on the ground in early August 2007, Avis Budget Group's Performance Excellence initiative has come a very long way. ABG's PEx deployment now has 68 PEx employees, all sourced internally. As of May 30, 2008, the team has undertaken 64 original projects and 472 replication projects (536 projects in total, all delivering employee inspired and developed solutions). Of these, 217 projects have been completed. To date, **savings are \$35 million in less than a year**, and the Company is well on the way to achieving its 2008 goal of \$40 million in savings net of expenses.

The biggest project to date has been the effort to eliminate unnecessary marketing collateral (tent cards, hang tags and the like) from rental fleet vehicles. **This**



**one project will save ABG more than \$4 million per year, directly in support of our strategic goal, while also having the “green” outcome of reducing paper consumption by 100 tons annually.**

### Where does PEx go from here?

Avis Budget Group's goal is to remain steady at around 70 PEx Leaders for the rest of 2008 to allow the team to coalesce and achieve a steady state. Over time, Mr. Myers plans on losing some of these leaders to promotion (to date, three PEx Leaders have been promoted out of the team's ranks back into operations), which will help infuse process improvement skills and the PEx mindset directly back into the organization's culture. After two to three years, we also anticipate most PEx Leaders will naturally rotate back into other areas, although a small percentage will stay on permanently to grow into Master Belts, able to carry on training and mentoring to the rest of the PEx Team.

Most importantly, as savings from ABG's Performance Excellence Initiative approaches and exceeds \$100 million a year, the Company expects that continuous process improvement, using tools such as Lean and Six Sigma, will become standard operating procedure. In this way, ABG's worldwide operations will be better positioned to address the challenges faced by the Company within the ever changing global business environment.