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INNOVATING A BUSINESS MODEL

How Zipcar Rewrites Industry Rules

By Jim Champy

WHEN I FIRST met Scott Griffith, the CEO of Zipcar, I asked him how his car rental business was doing. He replied that he wasn't in the "car rental" business—he was in the business of "shared car ownership." The distinction is more than a convenient choice of words. It changes the business's frame of reference—the way Zipcar thinks about itself and how it operates. Zipcar members, aka Zipsters, can drive whenever and wherever they want without having to own a car, and they do so with a compelling level of convenience and choice.

THE BENEFITS, WITHOUT THE HEADACHES

I love the Zipcar business model. It uses information and communications technology, combined with smart capacity management, to reach new levels of customer engagement. Its members get the benefit of owning a car without the headaches. And the model breaks the rules of the automotive industry—an industry mired in high costs and archaic processes.

Zipcar doesn't keep a lot of "heavy iron" sitting in remote airport parking lots. Its cars are parked in local, urban neighborhoods, in leased spaces or spaces donated by municipalities and real-estate developers, who see the advantages of having fewer, more frequently used vehicles accessible to local drivers. After all, every Zipcar replaces 15 to 20 privately owned vehicles.

TECHNOLOGY OPENS DOORS (LITERALLY)

After joining Zipcar for a minimal fee, members are charged on an hourly-use basis. A user-friendly website enables a member to reserve a car; the reservation is transmitted directly to the car's on-board computer via satellite link. The member flashes his or her membership card to open the reserved car's door, enjoys use of the car, then returns it to the neighborhood space. The visor organizer holds fuel credit cards, making it simple for members to stop and refuel if needed. Zipcar now has more than a quarter-million card-carrying members, or Zipsters, and 5,000 automobiles in 13 major urban markets.

Zipcar has been perfecting its business model for about 10 years and continues to expand offerings and capabilities. But the principles for developing this kind of business model are already clear.

Zipcar's service processes enlist its members to do much of the work typically expected of staffers.

COMBINE TECHNOLOGY WITH SMART BUSINESS PROCESSES FOR THE BENEFIT OF ALL CONSTITUENCIES.

When you design a business model from scratch, it's possible to use technology to gain extreme efficiencies, while at the same time delivering benefits to customers, employees, the community, and eventually shareholders. But it also requires the intelligent design of processes. At Zipcar, these processes include understanding user needs and preferences, selecting convenient and accessible vehicle locations, intelligent capacity management, and vehicle service. Zipcar constantly measures the performance of these processes and works to improve them.

The benefits to customers and communities are clear, but what's not known is that just 250 people keep this fast-growing enterprise rolling. That's largely because Zipcar's service processes enlist its members to do much of the work typically expected of staffers. These kinds of business models are simple and elegant.

CREATE LAYERS OF CONVENIENCE AND CHOICE FOR THE CUSTOMER.

Customers always want more and want it for less. Delivering value is as important as price. So make sure that your business model keeps layering benefits for your customers.

The Zipcar proposition begins with offering members convenient access to a car without the burdens of full ownership. Zipsters can save an average of \$500 a month compared to car owners, and Zipsters have more time to pursue their interests.

But Zipcar has also been adding choice to its offerings. When Zipcar was launched, the fleet consisted mostly of Volkswagen Beetles and Honda Civics. Today members can reserve what Zipcar calls "mood cars," including Mini Coopers, Prius hybrids, Mazda Miata convertibles, and even BMWs. The systems and processes of a business model must be designed to enable this kind of choice without dramatically increasing operating costs.

EXTEND THE BUSINESS MODEL TO NEW MARKETS AND CHANNEL

PARTNERS. When you have a good product, market opportunities abound. So advance the business model to capture new markets and channels. Zipcar has engaged corporate partners that use Zipcar's services to replace expensive corporate fleets. Zipcar's business accounts now represent 20 percent of its revenues. More recently, Zipcar launched a new service targeted at the public sector. Washington, D.C., which is the first city in the country to adopt the system, estimates it has saved more than \$300,000 during a four-month pilot of FastFleet by Zipcar.

As an example of a deeper channel partner engagement, IKEA—the home goods retailer—has sponsored 14 cars bearing both the IKEA and Zipcar logos in Boston. IKEA then created "Zipcar parking only" spaces at its new store to entice Metro Boston residents to leave the city and visit its out-of-town location. The co-branded cars are available to Zipcar members at a discount, reimbursed to Zipcar by IKEA.

Zipcar accomplishes all this while generating profits for its shareholders. But it also should serve as inspiration that, even in tough times, business innovation abounds. ■

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