





Aaron Rents: Different by Design

For more than half a century, Charlie Loudermilk has guided the Aaron's business model—and throughout all those years, his company has never stopped reaching beyond the conventional.

**By Kristen Card
Photographs by
Tom Wallace**

It was August in St. Louis and Aaron Rents Chairman R. Charles Loudermilk stood before almost 500 of his professional colleagues to receive the industry's greatest honor, the Association of Progressive Rental Organizations' 2008 Lifetime Achievement Award. Having begun his rental career 53 years ago with an answering machine and 300 folding chairs, Loudermilk definitely qualifies for the "lifetime" part. And having built a \$1.4-billion rent-to-own empire with more than 1,550 stores in 48 states and Canada that have served over a million customers, he's got the "achievement" part pretty well covered, too.

Loudermilk's leadership has, without a doubt, been instrumental in the unique direction Aaron's has developed since its 1955 inception. If Aaron's follows the beat of a different drummer, then that drummer is Charlie Loudermilk—and he plays a heck of a rhythm. He took his one-man rent-to-rent operation from party and health-care rentals to an extremely successful office rentals business, which went public in 1982. Five years later, as the rent-to-own industry began to blossom, Loudermilk thought Aaron's should give it a go.

"Charlie asked me to launch this new concept and I figured he was trying to get rid of me," remembers now-Chief Operating Officer Ken Butler, who has been with Aaron's since 1974. "Charlie told us just to copy Rent-A-Center at first, so we developed a comparable program with a weekly payment schedule. As we tested the market, we found everybody in rent-to-own was doing it the same way, which shocked me. So we opened up a store and we were like 12 other RTO stores up and down the street, with the

customers just going from one to the next, with little to no loyalty."

To both Butler and Loudermilk, it seemed that diverging from the accepted model might yield better results. They began to transform the paradigm, beginning with the payment schedule.

"I came from monthly-pay rental roots," Butler notes. "Customers were paying all of their other bills by the month, but had to pay for their TV by the week? It just made no sense, so we switched to a monthly program. But the biggest change happened a few years later. Charlie came to me and said, 'Why don't we try to do something with a 12-month program, rather than 18 or 24 months?' Well, we experimented with it in a few stores and every one of them, within six months, began to airlift—our deliveries were more, our returns were less and it was a payment plan customers really loved. We called it 'Twelve-To-Own.'"

And so Aaron Rents began to separate from the traditional rent-to-own model and, in many ways, has been distinguishing and distancing itself, its products and services from the rest of the industry ever since. Among the main motivators for differentiating Aaron's within the marketplace has been less-than-glowing public perception of the industry in the past.

"When I first encountered the rental-purchase concept, I said, 'This is the wave of the future,'" Loudermilk remembers. "People who don't have credit still need a refrigerator; they're going to get it somewhere and I think we can do that. But we have to do it legitimately, so all of us can sleep at night knowing we have helped people, rather than duped them out of all the money we can grab."

“We had customers who asked us to park our trucks down the street so the neighbors couldn’t see them; they were embarrassed to have people think they were renting-to-own,” Butler affirms. “For whatever reason, it’s still more socially acceptable to lease something than to rent-to-own it. So in our company culture, we try not to even say the word ‘rent.’ We changed the name of our rental-purchase division to Aaron’s Sales and Lease Ownership and no one asked us to hide our trucks from the neighbors anymore. We moved away from the traditional model and tried to focus on what was fair to the customer and a fair deal for Aaron’s—it’s our responsibility to find a way to make money in-between.”

Ken Butler



Today, rival Rent-A-Center sustains as the epitome of the traditional rent-to-own business model, while Aaron Rents stands in strong contrast—a difference that’s most apparent within three areas. One: Aaron’s offers primarily monthly payments, rather than weekly; two: Aaron’s has much larger stores (8,000–10,000 square feet vs. 4,000–5,000 square feet) and therefore, a much larger product selection; and three: Aaron’s provides customers with a lowest-price guarantee.

“We own nine manufacturing facilities under MacTavish Furniture Industries, making about one-half of our furniture, plus mattresses and home accessories for us,” Loudermilk says. “We also have 19 distribution centers, delivering merchandise quickly to our stores. So running one of our stores is easier—you’ve got only one collection a month, rather than four, and readily available inventory.”

The numbers tell the story: while Rent-A-Center has about double the number of stores as Aaron’s, Aaron’s total net income for last year was \$80 million, while Rent-A-Center netted \$76 million total.

Numbers also make a difference when it comes to the two giants’ franchise programs. Aaron Rents’ Vice President of Franchising Todd Evans adopts a rather philosophical attitude about Aaron’s competition in ColorTyme Rent-to-Own, Rent-A-Center’s franchising arm, but notes that when it comes to the bottom line, Aaron’s stores are simpler and more profitable to run.

“The ColorTyme business model is a good model. It works; it’s profitable,” Evans says. “Aaron’s business model is just a different successful model. The best analogy is McDonald’s—when you go into a McDonald’s, you don’t know whether it’s a company store or a franchise; there should be no discernible difference. That’s the mark of a good franchise. Consumer expectations are consistently fulfilled. Because ColorTyme is its own brand, they might offer a little more flexibility for franchisees in their system than we do in ours. But their average store



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Another difference between the pair of programs is what type of businesspeople they pursue to become franchisees. While almost half of ColorTyme franchisees own only one or two stores, Aaron’s courts higher net-worth individuals with the drive to deliver the “Aaron’s six-pack”—six stores, initially. Again, the data’s in the digits: Aaron’s, which began franchising in 1992, currently has almost 500 franchises, with another 285

slated to be up and running within the next three years; ColorTyme, acquired by Rent-A-Center in 1996 with 320 stores, now has 215, with eight more expected by year’s end.

As many within the rent-to-own industry search for new products and services with which to build their business, Loudermilk largely dismisses the need for diversification. Aaron Rents’ innovation within the industry is already evident, he says—witness the company’s retail/rental-hybrid business model, manufacturing arm and an astutely

lucrative relationship with NASCAR racing. “Frankly,” he says, “we’re busy enough with what we’re doing that we don’t need to continually get into something else.”

The company is sampling the wheels-and-tires lease-purchase business through its Rimco stores. Currently, there are 30 company stores and eight franchises open, with another 10 franchises committed to opening over the next few years.

That’s a dainty dewdrop in the behemoth bucket that is Aaron Rents. According to Loudermilk, 2008 might look like a slow-growth year for the company; but, he says, it’s all part of the company’s growth/profit cycle.

“Last year, we set a goal of opening up 300 stores, which we met,” notes Loudermilk. “But by the end of it, we had outgrown our management and our ability to run some stores profitably. So at the beginning of this year, I made the decision for us to slow down and concentrate on profit. We’re doing it and it’s paying off. Next year, we’ll focus on new store openings again and cycle around.”

Butler believes sustaining substantial growth is definitely possible, not just for Aaron’s, but for the rent-to-own industry

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overall—as long as it continues to work as a whole toward improving its public image.

“I see more and more operators trying to emulate what Aaron’s has done, some maybe doing it better,” acknowledges Butler. “If we create competition to make each other better, then that’s good. And if you shop the competition across the country today, it looks 10 times better than it did 15 years ago and we like to think Aaron’s had something to do with that.

“If we, as an industry, do a good job, then I believe our market is fully 50 percent of the American population,” he asserts. “I be-



Todd Evans

lieve there are many more people out there to serve who right now won’t come into an RTO store for a variety of reasons. The more attractive we can make our proposition, the more we can extend the market and the more we may be able to prosper.”

As Aaron Rents looks forward to a future of continuing success, the obvious question still comes up: With their trailblazing pragmatist of a leader now 81 years old, what will life after Charlie look like at Aaron’s? The answer is as straightforward as the man himself.

“My son [Robert Charles Loudermilk Jr., nicknamed Robin] is now our CEO,” Charlie Sr. says. “I’m shifting pieces of the business over to him and we’ve got one of the best, most well-established management teams in the country. We’re making a smooth transition. But the doc says I’m in good shape for the shape I’m in; I’ve got no interest in retiring.” *

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