



# Aaron's

Ed Winn III takes a look down the roads traveled by rent-to-own's publicly traded companies, Aaron's Sales and Lease Ownership and Rent-A-Center—the titans of the industry with two distinct paths for doing business.



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Two roads diverged in a yellow wood  
and sorry I could not travel both  
And be one traveller, long I stood  
and looked down one as far as I could  
to where it bent in the undergrowth;

I shall be telling this with a sigh  
Somewhere ages and ages hence:  
Two roads diverged in a wood, and I—  
I took the one less traveled by,  
And that has made all the difference.

*Robert Frost*

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## Two Rent-to-Own Roads Diverged...

**T**he two giants of rent-to-own, Aaron's Sales and Lease Ownership and Rent-A-Center, have both cut huge swaths through the RTO forest and one would be hard-pressed to choose which of their paths to follow if one were seeking a formidable business model and profits. Both paths are heavily traveled; both companies are multi-billion-dollar conglomerates that have each served millions of customers. Both offer heady success stories of entrepreneurial daring and far-sighted business vision. After all, a lot of smart and resourceful people have divined the business possibilities of rent-to-own; only these two companies have executed on their particular visions to dwarf all other competitors. Today, Rent-A-Center has some 3,500 stores; Aaron's has some 1,500. The next largest competitor does not yet have 100 stores. These two behemoths control as much as two-thirds of the rent-to-own market by any measure: store count, revenues, BOR or customer count. The particulars of these two public companies are readily available in their annual reports.

### My, how they've grown

**W**hile these two companies are both in the rental business, they have, indeed, taken different paths. Both have been renting things for a long time. Aaron's has been in the rental business since 1955; Rent-A-Center since 1973. Aaron's has followed one charismatic leader for more than 50 years, R. Charles Loudermilk. Rent-A-Center has had a number of powerful and accomplished leaders over its history, beginning with Tom Devlin in the 1970s. Devlin sold his company to Thorn EMI, a British conglomerate. Ernie Talley and Mark Speese started a rental company in the late 1980s, Vista, later to become Renter's Choice, and that company later bought Rent-A-Center back from the Brits. Notable leaders in those companies over the years include Devlin, Talley, Speese and Bud Gates.

Detailed histories of these two companies have been chronicled elsewhere (visit [www.fundinguniverse.com/company-histories](http://www.fundinguniverse.com/company-histories)). Each has enjoyed scintillating highs and suffered debilitating lows over the decades. They arrived at their respective summits in the rent-to-own industry by very different routes. Rent-A-Center grew in large part by acquisitions. Looking back, Rent-A-Center was the chief consolidator of a fragmented industry during the '80s and '90s. In less than four years, for example, Rent-A-Center purchased 910 RTO stores in 43 separate transactions (1995: 207 stores, 1996: 408 stores, 1997: 81 stores and 1998: 219 stores).

And while it has been quick to take advantage of attractive acquisition opportunities itself, Aaron's, on the other hand, has grown mainly through opening company stores and franchising. Aaron's has aggressively marketed its franchise program through a variety of avenues, including bold earnings claims ads in *The Wall Street Journal*. Rent-A-Center has a franchising arm, ColorTyme (a wholly owned subsidiary) and that has contributed to the Rent-A-Center store count. ColorTyme franchisees are more independent than Aaron's franchisees and ColorTyme is less integrated into the Rent-A-Center system; it was, after all, independently owned and operated as a franchise system from the 1970s until 1996, when Rent-A-Center acquired the chain.

### Different roads to success

**R**ent-A-Center's rent-to-own business is the traditional one, originated by the Talley brothers in Wichita, Kansas, back in the 1960s. Tom Devlin worked for Ernie Talley and adopted the original version of rent-to-own with only slight modifications in product quality and customer service. Eighty percent or more of Rent-A-Center customers pay weekly, with rent-to-own terms of 78 to 104 weeks. Store size runs, ideally, around 4,500 square feet and store revenues average

**Both Aaron's and Rent-A-Center have to take into account the success of the other when developing long-range strategic plans. They have occasionally butted heads over advertising claims and other issues. However, that competition has surely made these two companies better and the industry as a whole has also benefited. Competition makes for innovation and even the more traditional Rent-A-Center keeps improving on the weekly business model to challenge that segment of the industry.**



\$70,000–\$80,000 per month, managed by five to six employees per store. The Rent-A-Center business model is the very definition of rent-to-own. When the business is described by friend or foe alike, the description is, most often, how Rent-A-Center runs its business.

The Aaron's model was not developed until 1989. Before then, Aaron's focused on the rent-to-rent business—residential and office furniture primarily—but the undeniable success of the rent-to-own concept pushed Aaron's inexorably in that direction. Aaron's may be in the rent-to-own business from a strictly legal point of view, but from a marketing point of view—which is how it presents itself to the public—it is in the sales-and-lease-ownership business.

For decades, the rent-to-own industry struggled to differentiate itself from retail, refuting the claims of consumer advocates that there was really no difference and that RTO should be regulated just like retail. Aaron's developed and began to exploit its lease-ownership concept when the rent-to-own versus retail legal battle had largely been won. The rent-to-own industry had persuaded regulators, at the state level anyway, that RTO and retail were fundamentally distinct ways of doing business and that RTO needed to be regulated differently from retail—and thereafter it was. The safe legal harbor that the industry so painstakingly dug for itself, state by state, all during the 1980s and early 1990s created a new environment for the industry, allowing Aaron's to come out with a program that rubbed right up against retail notions and gave its rent-to-own business a different look and feel.

Aaron's stores are larger than traditional RTO stores—9,000 square feet or so. Average monthly revenues regularly run into six figures with five to six employees per store. The reason that Aaron's stores can generate more revenues with the same number of employees is that 80 percent of the Aaron's business is monthly.

### Weekly or monthly?

**C**huck Sims, founder of Remco and one of rent-to-own's pioneers, championed collecting payments from customers monthly—having tried both weekly and monthly plans. He argued that if you only have one-quarter as many encounters with the customer each month that involve getting your payment, then you have one-quarter as many chances for something to go awry with the relationship. You can expand to bigger stores and you have an easier business to run.

The traditional rent-to-own philosophy concerning payments has always been that the transaction appeals most strongly to customers who are credit-constrained for one reason or another. They may be too new to the market to have established credit. They may have ruined their credit through improvident life choices or bad luck. They may have used up

all of their available credit on other purchases. Some customers do not manage their finances responsibly and the sentiment was that, if certain customers were unable to come up with \$100 to make a monthly payment, the industry would accommodate them by its willingness to accept \$25 every week—figuring that is an amount customers *can* come up with, since that is how they are getting paid. The industry responded to customer demand for weekly payments and today collects \$4 billion to \$5 billion per year in weekly payments.

The Aaron's philosophy is this: since people have to pay some bills by the month, no matter what—rent, utilities, and the like—they can be persuaded to make monthly *rental* payments for their televisions and furniture. The difference in store traffic, among other things, between weekly and monthly businesses is huge. In a store with 500 customers, it is the difference between having employees collect and process 500 payments versus 2,150 payments. The carpets wear out more quickly in a weekly store. So do the collectors.

While some people can be persuaded to pay monthly, not everybody can—thus, the continued staying power of the weekly business that still makes up two-thirds or more of the rent-to-own industry, overall.

Aaron's has also tinkered with the RTO term, showcasing its “12-to-own” program, which rippled through the industry that historically had only offered 18-month or 24-month deals for 30 years.

### Competitive fire

**M**ake no mistake, these two companies are vigorous competitors. Each has to take into account the success of the other when developing long-range strategic plans. They have occasionally butted heads over advertising claims and other issues. However, that competition has surely made these two companies better and the industry as a whole has also benefited. Competition makes for innovation and even the more traditional Rent-A-Center keeps improving on the weekly business model to challenge that segment of the industry. Both companies are beginning to diversify. Rent-A-Center is adding payday loans to some of its rent-to-own stores and Aaron's has opened a fledgling chain of wheel-and-tire rental stores called Rimco. It may be the size and shape of the rent-to-own industry itself that is allowing both of these giants to grab and hold such significant shares of their markets. They are both very good at what they do. If the next 10 years in any way parallel the past 10 years, both Rent-A-Center and Aaron's are poised to become modern American success stories, even beyond the levels that they enjoy today. ✱

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