



**For those  
still unplugged,  
rental-purchase  
offers a vast  
cyberworld  
of opportunities.  
An update by  
Elizabeth Winn**

# THE DIGITAL HORIZON

**W**ith the surge in Internet usage during the past five years, computer rentals have been a rising star on the rent-to-own horizon. Industry statistics show a growth in computer rentals from 0.8 percent of BOR in 1997 to 4.2 percent of BOR in 2001, representing a growth of 425 percent in a four-year period. No other product category comes close.

The 2001 Rental-Purchase Industry Survey indicates computer rentals now exceed rentals of VCRs, living room tables, dining room furniture, decorative accessories, recliners, home entertainment centers and stoves. Computer rentals are now gaining on refrigerators as a percentage of BOR industrywide. These numbers should be starting to get dealers' attention.

When did all this begin? Jump back in time for a moment to the late 1970s in California. One of the rental industry's frontier-busting pioneers, Barry Gambini, saw potential in this newfangled "personal computer" called the Commodore 64, a veritable icon of computing power that armed the user with word processing and an electronic spreadsheet. Gambini opened the doors on CompuRent, a pilot storefront. After 18 months, with technological advances moving faster than a speeding bullet, Gambini determined that the computer environment wasn't yet stable enough for rental markets. That was then.

Soon after this foray into computers, the advent of another maverick machine, the VCR, came about. Eager to ride the tide of interest in popular, new products, Gambini was the first rental dealer to rent VCRs. His customers rented the hefty Sony Movie Machine and a four-movie weekend package and away they'd go. VCRs went on to be a cornerstone of BOR for years.

Renting innovative products in time with the times is great when the turns are there and consumer interest is high. Rental customers want what everyone else has, although they can't always access products when they first hit the market. When new products come out in the tech realm, who gets there first? The geeks and the "early adopters" who have to have the latest feature, are usually first. Next comes the upper middle-class who want the latest gadget, toy, status symbol. After that, middle-class America takes a look.

By now the price has dropped somewhat and the product has some visibility in the marketplace. It has proven to be a desirable and necessary thing to survive and, let's face it, if the Joneses have it, everyone's gotta have it. As more and more consumers buy in, it becomes downright necessary to plug into technology to keep up the pace in business, at home and at school. However, there are always those consumers who do not quite arrive on the scene. Zoom to the present and meet a newly defined and significant segment of our Information Age society—the Digital Divide.



**The days  
of free  
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Making  
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Bundling  
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whose time  
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## **WHAT AND WHO IS THE DIGITAL DIVIDE?**

The Digital Divide represents consumers who haven't yet plugged into computers and the Internet due to lack of money, credit, education, physical access, confidence or just plain lack of interest. As the rest of the world speeds forward on the Information Superhighway, those already on the side of the road are getting left further behind. This lack of access translates to decreased opportunity to take part in our information-based economy.

As of September 2001, 168.6 million Americans are becoming increasingly dependent upon the communication, education, training, shopping and entertainment opportunities provided by the Internet. While these folks are getting ahead in a society already fractured by socioeconomic inequities, the gap widens, thus, the divide. What can this mean for rent-to-own?

More customers. The rental industry's customer base has remained stagnant for the past three years at three million customers. Some Digital Divide customers are already walking into rental stores. They are rental customers without the Internet. A significant base of new customers lies within the Digital Divide and can be reached with the right direct marketing message. Dealers who are not reaching them are missing an important opportunity. Digital Dividers are ready to embrace the Internet. They are starting to feel the effects of being left behind or left out. Yet, the lack of Internet and/or computer access due largely to cost, credit restrictions and fundamental lack of understanding of computers has kept many in this large group of consumers at bay with few or no options.

A study by the U.S. Department of Commerce cites that between 1998 and 2000, growth in households acquiring a computer for the first time or coming online was most dramatic among African-Americans and Hispanics, consumers bringing in under \$35,000 annually and those with a high school education or less. Hispanic households with computers grew by 32.2 percent from 1998 to 2000 while African-American households with computers grew by 40.5 percent. During this three-year period, Internet access among African-Americans more than doubled at 110 percent and Hispanic access almost doubled at 87 percent. Internet access increased in households within the \$15,000–\$24,999 income bracket by 93.6 percent. Americans coming online with less than a high

school education increased by a whopping 134 percent.

Even with growth in access rates well above the national average rate of 58.4 percent, there is plenty of room to grow with more than 100 million Americans currently not online. African-Americans and Hispanics are still far behind Caucasians and Asians with access to computers, especially at home. Currently, 70 percent of “Black and Brown America” is not connected, according to former Assistant Secretary of Commerce Larry Irving. This is a wide open market on the move, but it is a market with specific needs.

### MEETING THE NEEDS OF THE DIGITAL DIVIDE CUSTOMER

Income and education levels of most Digital Divide customers demand the least complicated, least expensive and least frustrating experience in computer and Internet acquisition. They are motivated by four main things: easy access, low cost, online communication with friends and family and Internet content that is relevant to enhancing the quality of their lives.

First off, easy access means just that. It means no hassles in signing up for Internet service. This includes trying to compare what each service offers, whether a major or a local ISP, and then usually needing a credit card to pay for monthly service. Keeping up with yet another payment is discouraging to some. The days of free unlimited Internet are gone. Many potential customers have not gone online because of perceived expense, credit restrictions and lack of knowledge on how to get online. Making Internet access as simple as possible is key to getting customers to come in and rent hardware. Bundling Internet service with hardware is an approach whose time has come.

Second, cost is another consideration when attracting the Digital Divide customer. Presently, an average weekly rental rate on computers runs about \$28 (based on the lowest weekly rates of \$19.99 and the highest of \$39.99). Adding Internet service, which averages \$22 per month, on top of a monthly average expense (\$28 multiplied by 4.3 weeks per month equals \$120), the customer is looking at an average of \$142 per month to get a computer and to get online. This is a stretch for the Digital Divide customer, considering that the most dramatic expansion rate of 93.6 percent is occurring in income

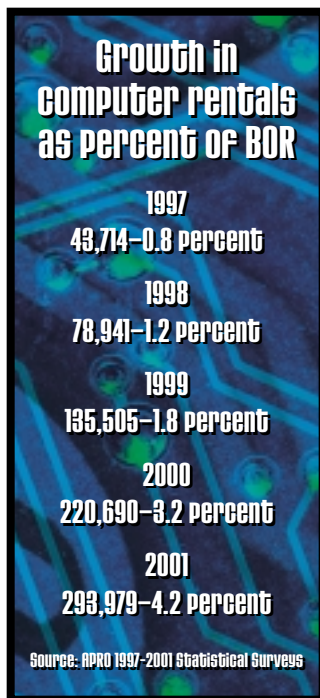
brackets below \$25,000 where only 28 percent of homes have a computer and 19 percent are currently online. A lower weekly rate is more suited for acceptance by this newly entering customer base. This is in tune with what these customers really need—fewer bells and whistles for less money.

Third, getting online to communicate with friends and family is attracting Digital Dividers to the Internet. E-mail remains the No. 1 online activity among users at 84.8 percent, information searching at 59 percent, checking news, weather and sports at 46 percent and shopping and bill paying up to 33.6 percent.

Developments in instant messaging (IM), the increasingly popular online chat tool, have also sparked growth in Internet usage. While it has taken nearly a decade for e-mail to be fully embraced, most analysts believe it will take half that time for IM to become a way of life. Instant Messaging has virtually replaced phone chat among many teenagers and has literally begun to change the way people are doing business. It is estimated that by 2005, IM will surpass e-mail as the primary online communications tool.

Finally, meaningful content is extremely important to Digital Dividers coming online. Access alone will not bridge the divide. To attract and keep anyone on the Internet, regardless of

their cyber-sophistication, useful content is as important as hardware and Internet connections. For at least 50 million Americans—roughly 20 percent of the population—one or more content-related barriers stand between them and the benefits offered by the Internet.



### QUALITY CONTENT ATTRACTS CUSTOMERS

Four specific barriers to quality content for Digital Dividers are lack of local information, literacy barriers, language barriers and lack of cultural diversity. Over and over, Digital Dividers remark that practical information about their local community is what they want most in the way of content. This includes information on local entry-level job listings, affordable local housing rentals and foreclosures, local transportation, child care, local government agencies, health care, educational opportunities, recreation and family events.

Low-literacy is a significant barrier, but one of the most motivating reasons for Digital Dividers to come online now. Forty-four million American adults do not have the reading and writing skills necessary for functioning in everyday life. Appropriate online content for limited-literacy Americans raises literacy levels as well as employment levels, saving business and taxpayers considerable dollars. American businesses lose \$60 billion in productivity every year due to employees' basic lack of skills. Preparation for high school GED online is vastly appealing to those needing to improve their earning potential.

Language barriers on the Internet affect an estimated 32 million Americans. Approximately 87 percent of documents on the Internet

are written in English. Non-English-speaking users want three things: online translation tools, online courses to improve English language skills and more information in their native language, especially about government efforts that affect them such as Medicare, taxes, voting and immigration rulings.

Cultural gathering places on the Internet hold strong attraction for Digital Dividers who want to maintain connections to their culture though they may be distanced. "Low-income groups don't have enough cultural spaces they can call their own; they need more environments dedicated to this," says Tamara Sturak, program director of The Interactive University of California, Berkeley.

Availability of desirable content and navigation assistance to get to it is the powerful magnet that will attract and keep this worthy and advancing market. Moreover, playing a part in bridging the Digital Divide in this country is a noble endeavor that would raise the bar in the public relations efforts for the rental industry.

As the Internet evolves, content development initiatives are spawning all over the country. Marketing partnerships are currently being developed for rental dealers to serve better this promising, emerging market and begin to grow a new, solid customer base while contributing to bridging the digital divide. This is a new twist in ISP delivery that is easily provided with the purpose of building loyalty within a customer base by providing quality, relevant content and link information targeted to rental customer needs and interests.

#### **KEEPING IT SIMPLE**

**T**hose dealers who are already renting hardware know that it can be a profitable, albeit labyrinthine, endeavor. Some dealers who have tried to rent computers felt that they had to spend too much time and money to make a profit and got out. Many other dealers, however, have figured out how to do it to make it the fastest growing category in rentals. One common thread that dealers across the board want, however, is less hassle. Less maintenance, less idle inventory, easier set-up requiring less employee time, better warranties and service support and a higher stick rate are a few items on the wish list for this product category. And then there's that matter of finding new customers.

Fortunately, at a time when a virtual tsunami of emerging late adopters to the Internet is swelling, the folks in the back



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rooms are aware and responding to the call. For some time now, the computer industry has been on a fast track with a focus on speed and storage. What has become apparent is that most home users don't use the maximum capacity of today's rocket-powered machines.

The tide of obsolescence has not made consumers happy when they are made to feel their investment is no good, that they are behind and must upgrade to a new machine to be able to run new software. This also plays havoc with inventories. It's the game of hype and it has gone on for a long time.

Software companies have supported hardware manufacturers by distributing the new version game and consumers have followed blindly along. Most of us have been a puppet in this scenario.

The PC industry has never needed new sales more than it does now. The industry is in its first decline since 1986. In the first full week after the terrorist attacks, retail PC sales were down nearly 50 percent from the same period a year ago, according to industry analysts. Prices continue to fall even as features improve.

In the past, the industry has pushed new features and capabilities—digital music, photography, gaming, more powerful software—as primary selling points. But massive advances in power and capabilities are lost on the average consumer and don't matter a whit to the newbies coming on board from the Digital Divide. They want e-mail and life-enhancing information which simply doesn't require 1 gigahertz of processing power or 256 megabytes of memory.

When technology reaches the point where it satisfies basic needs, improvements in technology lose their glamour. Customers seek efficiency, reliability, low cost and convenience. The entire nature of a product can change in a mature market. Late adopters are more conservative. They have waited for the technologies to mature, to prove themselves and to provide value for their money, value without hassle. Late adopters are the vast majority and far outnumber the early adopters—those who are enchanted by technology.

The PC industry has been through a period of enormous growth with profits reaching almost a fever pitch. New technologies have been hurled at the customer at a rate faster than even the early adopters can absorb. Suppliers must be aware of adapting to a mature market and an evolving customer base. Function-based devices geared to user abilities and

preferences have arrived. In the inimitable words of Bob Dylan, “the times, they are a changin’.”

### THE BIG PICTURE

American policy makers and opinion leaders are beginning to turn their attention to the untapped market potential in the low-income areas of the country where much of the Digital Divide resides. According to estimates, the inner-city portions of America represent more than \$300 billion in retail purchasing power. Much of this is untapped, despite the ready customer base, because of a gap in information about retail choices and options.

Although some questions arise whether the Internet will become a priority for underserved Americans on limited budgets, the example of cable television suggests that as long as the product is seen as valuable, price alone does not dictate a market for media products.

Studies show 56 percent of low-income families have a cable subscription, typically paying about \$28 per month for basic service and additional monthly fees for premium service. The potential exists for far greater adoption of the Internet with access to valuable content relevant to enhancing daily lives. Yet financial and credit restrictions still make it difficult for a large segment of the Divide to join in.

Timing is everything. The arrival of late adopters to the Internet comes on the heels of a three-year drought in rental customer growth. Dealers have an extraordinary opportunity to tap into what is fast becoming a needs-driven market. Attracting these customers requires thinking about their specific needs. Departure from standard procedure by simplifying hardware offerings, targeting marketing efforts, bundling Internet service and forming partnerships with content managers will not only address existing logistical problems in computer rentals, it will serve the rental industry well by establishing a permanent and perpetual new level of customer. Meeting the challenge of ushering in the new rental customer will require new ways of thinking and willingness to try new methods. The potential of this ready market warrants stepping up to the plate. Batter up? ■

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