



Get Back

By Markus Beeby

With the wave of mergers in the rental-purchase industry now past its peak, many longtime rental-purchase owners and operators who were bought out or who sold out have waited out their "non-compete" agreements and re-entered the business as reborn entrepreneurs. Even with the opportunity to enjoy their big payday and endless hours at the golf course, many seem to have found the rent-to-own industry's Catch-22: "You can check out any time you like, but you can never leave."

One dealer whose story exemplifies this is Larry Sutton. Last June, Sutton found himself driving home from a new business deal through the small towns in central Florida. After years of serving towns like these in the rental-purchase business, he had spent the afternoon discussing possible investments in the "smoothie" industry. Smoothies - the fruit and dairy nutritional drink concoctions popular among all age groups.

Just two years earlier, Sutton had been running his 28 Champion stores with great success. Caught up in the midst of the industry's "merger mania," he found the right partner offering the right price in the newly merged Home Choice chain. Faced with the big payday and expansion opportunities that the merger arrangements offered, he couldn't help but say yes. Then things got interesting.

The lead investor in Sutton's deal was George Johnson of Blockbuster Video fame. Johnson's team was instrumental in bringing the video rental industry from its shady underground to a favorite American family pastime business it is today. What he was offering Sutton was the deal he had been looking for - a merger, rather than a straight purchase, which would keep the existing company together and allow him to join the company in a new position.

"I liked what they told me, as far as building a good company and opening new stores and running a clean operation on a regional basis," says Sutton. "I would be working as a regional manager and basically doing what I had been doing before, only doing a lot more of it and a lot faster. With the George Johnson reputation of expansion and the money involved, it looked like an opportunity to do something really fun."

And for the first six months, it was. Sutton was surrounded by employees he had hired for his Champion stores, while opening up Home Choice stores at a quick pace. All was well, until the report card came in. Somewhere between the break-neck expansion, the new accounting system and the incorporation into bureaucratic corporate practices, some of Sutton's stores started losing money.

"All of a sudden, stores that had looked like they were making good money started showing losses," he says. "I had some attitudes to deal with because my operators were frustrated. The company had gotten bigger than it was capable of managing in the manner that we had been."

The company's investors felt that the financial losses were too great to overcome. Their hopes of going public were all but dashed. The reaction was to turn the wheel toward a company that was already publicly traded and head full steam into another merger. A few months later, George Johnson's Home Choice merged with the then NASDAQ-listed Alrenco. Sutton was left wondering where things would go from there.

"It all went downhill fast," says Sutton. "The whole thing just kind of turned into a nightmare. Alrenco had bought up all these companies to grow its company and we had

bought up all these companies to be who we were. Now we had 400 stores with 50 different cultures. We just never got a handle on a culture that made sense to everybody."

With 750 stores that weren't making money or showing a profit, Alrenco cut a deal with RentWay in January 1999.

"Then I left. I had had enough. I was merged out," says Sutton.

Later that summer, the 48-year-old Sutton was heading back to Tampa with smoothies on the brain. Opening two stores with a start-up franchise, like the few check advance stores that he had opened, was the latest in a gaggle of post-rent-to-own investments he had successfully undertaken. For the following six months, he spent his time dabbling with these investments and playing too much golf. He did not enjoy it.

"I missed the friendship, the customers, the camaraderie, the sharing, the excitement of it all," he says.

His quest for familiarity ended when, driving through prospective central Florida towns, he picked up the phone and called his brother Steve, a 20-year RTO veteran and six years' Larry's junior. Steve told him that he had been waiting for the call. The first Sutton Adventures #2 Inc. project, the first RentQuest store, opened October 1, 1999.

Merger Mania

Sutton's story is not unique. Like many smaller chain operators, he seized the opportunity to merge his stores during the big-chain feeding frenzy that dominated the past few years. With 1,623 stores being snatched up by five RTO store chains within the span of five years, every small dealer was aware that the sale of his store(s) could prove to be an instant retirement package.

The bottom line for most of these owners was exactly that - the bottom line. A chance to merge has been compared to winning the lottery. At the very least, it made for a great "out" strategy.

Bob Moomey, another reborn rent-to-own dealer, sold his 14 Michigan-based Liberty Rent-to-Own stores to Rent-A-Center, currently 2,076 stores strong, in 1997 and 1998 for what he chuckles are "obvious reasons."

"Just the 12-multiple," he says. "The money was there at the time and I figured, with all the merging going on, let's get out while the getting is good. Like they say in northern Michigan, 'You make hay when the sun shines.'"

Having served on the APRO board of directors for a few years, Moomey had heard merger horror stories - stories of owners being dragged through deals so long that they'd take anything, companies lying about cutting employees - so he went into negotiation with a simple plan: no negotiation.

"I just worked out a multiple and told them what it was and said, 'Accept the business as it is or don't talk to me.' And it went excellently, no nightmares, no surprises," he says.

Moomey found himself pleasantly surprised by how high the bidding got and prepared himself for a pleasant snooze in his proverbial hay. He spent an enjoyable retired year in the outdoors, spending time with his two high school-aged children and moving to

Wyoming. But a key ingredient in the 49-year-old's life was missing: stress.

"I was too young to retire, too much energy left," he says. "An 'A' personality really misses being out on the firing line, the day-to-day kind of stuff that keeps you sharp. I was only out for a year, but I could feel it. You just have to have something keeping your mind stressed. A lot of people don't like stress. But 'A' personalities, we thrive off of it. And I'm probably an 'A+'," says Moomey.

Last May, Moomey opened Liberty Rental Plus, a one-store operation in northern Wyoming. And he already has the cities picked out for a possible two- to three-store expansion. "There was only one other rental store out here," says Moomey. "It's a really good climate to bring a business, especially since there is no state tax."

For 14-store owner Danny Wilbanks, it was pure investment strategy that led to the sale of his ColorTyme stores in Texas to Renter's Choice. Estimating that it was a peak time to sell, his group of investors gave Wilbanks the go-ahead in February 1997.

"Turned out they were right," he says. "The sale went perfectly."

Wilbanks didn't have too much time to enjoy his post-RTO career at that point, however. The deal closed on a Thursday and Renter's Choice CEO Ernie Talley called him that Saturday with an offer to fill the vacant chief financial officer spot. Apparently Wilbanks had made an impression on Talley when he interviewed with the company when they first went public in 1995.

"It worked well for all parties involved," says Wilbanks. "The investors made a nice return on their money, the acquirer bought some stores that have grown since, the employees were offered immediate advancement opportunities and pay increase opportunities that a small business owner can't offer. And I got a chance to learn about the Renter's Choice business model and how to run a great business."

Fish out of Water

Wilbanks soon found out what many of these previous store owners were beginning to find in their new big company jobs: It's tough not being the boss.

"There's a lot of difference between being an employee in a public company and being an entrepreneur," says Wilbanks. "In a big company, your efforts are part of a very large team. While your input may be critical and important, it is not as obvious. In a small business, your actions have much more impact. Once you've experienced running your own business and doing your own thing, it's hard to become an employee again."

Wilbanks has since left Renters Choice and opened five Rent America stores near Austin, Texas, and is planning to expand the chain throughout the state.

Adapting to a big company-style mentality presented another major roadblock for many of the newly acquired small-chain owners.

"There are many layers of management at large companies that slow down the business process," says Charles Cloud, who sold his 28 Arkansas-based Fastway stores to Alreco in January 1997. "I feel that there is a lot of good opportunity for small, well-run regional rental companies that can take care of the customer better."

Cloud has since returned to the RTO fray with First Choice Rental, which he started in February 1999, also in Arkansas. He just signed the lease on his fifth store and has plans to have 15 stores by 2002 in four to five states.

"You're used to people coming to you and making decisions," says Sutton. "All of the sudden, you have to run ideas by upper management and get their commitment and then go to senseless meetings that last three days and don't accomplish anything. It's almost like a waste of time."

Danny Wilbanks chalks up his experience at conglomerate Renter's Choice as a learning experience.

"If you're the kind of person who likes working for a large company, then it's really the place to be," he says. "It was really an opportunity to learn."

RTO Yearnings

The major common element that these recently retired operators missed from their jobs was their customers. Rental-purchase being the relationship business that it is, many found other ventures as unfulfilling as Larry Sutton did his smoothie undertakings.

"I seriously thought about expanding the smoothie business, but it's totally different being an investor. You buy it and sell it, buy it and sell it - I really prefer the rent-to-own business where you have real relationships with your customer base."

"RTO is more fun than retail," says Moomey. "I think you're more appreciated by the customer. Whereas on the retail side, customers will go next door to save a dollar. The rent-to-own customer, if they like you, will be loyal. The loyalty and the honesty of the clientele is the real difference."

"You know them," says Sutton. "You know what trials and tribulations their families are going through. You really develop an appreciation for what they're doing."

"They're good, honest, hard-working folks, for the most part," says Cloud. "If you stand in a rental store on a Friday or Saturday, you realize that they are the working people of America. They've got smiles on their faces and stories to tell."

Back in Business

For much of the class of this "merged" group of rental dealers, it is now time to head back to the business a little richer, a little wiser and still too inspired to quit.

Says Bob Moomey, "Once you've had a good experience, you'll always be in rent-to-own. Even when you get out of it, you're not really out of it. Given some mature stores, I'd do it again."

Larry Sutton, however, doesn't see any more mergers in his future.

"The grass always looks greener on the other side. If I had known what I now know, I probably wouldn't have done it in the first place. But at the time it looked like the opportunity of the century. I got all caught up in public companies and multiples of income stuff. I thought, incorrectly, for a while that it was all about how much money you could make. I should have known better."

But knowing better is what Sutton has on his side for this go around.

"I had an important learning experience. I learned what I don't want to do, which is probably just as important as learning what you do want to do. After 20 years, Steve's and my practices started getting a little stale. We stopped learning and expanding our horizons. With this second chance, we've taken a look at what some other people are doing and how to incorporate those ideas into what we're doing. And I'll be dad-gum if you don't have a couple of old dogs learning new stuff. There's nothing better than learning."

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