



# THINKING about IDLE INVENTORY

BY ED WINN III



There are those who think that all people and all issues can be divided into two camps and there are those who don't. How rental dealers view used idle inventory is one such test of the "everything into two camps" construct. The thesis is that there are those rental dealers who love used idle inventory. I am postulating that this audience makes up 20 percent for the sake of argument and in keeping with the principle that everything divides 80 percent to 20 percent. And there are those dealers who loathe used idle inventory (our 80 percent).

## IS IT CLUTTER?

Used merchandise is, after all, used. Sometimes it is all used up—like the baby bear's porridge. It never has the shine and smell of something just-out-of-the-box new. It has been picked up at least once. The pickup may have left a bad taste in the dealer's mouth in and of itself. The used product may be dirty or broken or both. Somebody is going to have to clean it up and maybe fix it before it is worth anything again. It may have to be fumigated, repainted, rewired or sewn back together. That makes a lot of work for somebody and is so much less fun than popping open the box of something brand new.

Then that used, reworked thing is going to have to be re-rented if it is going to have any real value to the rental company. That means steering a customer away from the nice, new, easy-to-rent stuff over toward the bargain bin, not at all where the dealer's heart lies, and it means making excuses for the stuff on the way over and, finally, only half-heartedly trying the make the deal.

This dealer, after all, hates the used stuff because of all the trouble it brings with it to the store and it is hard to feign a seller's enthusiasm for something that is secretly despised. The result of this attitude is that the used stuff doesn't move. It hangs around in the a dimly lighted corner of the showroom and, over time, the pile of used stuff grows, but the store doesn't and the BOR doesn't and the revenues don't because the dealers who hate the used stuff do not understand what they really have on their hands.

## OR IS IT CASH?

The other 20-percent side knows, though. These dealers understand how to read a store's profit-and-loss statement. They understand how depreciation works and how to boost store revenues and profits by falling in love with their used idle inventory and by treating it with the respect that a revenue-generating asset deserves.

Now these dealers do not like picking stuff up any better than anyone else. In a perfect world, all customers would all pay on time and keep all of their stuff until they owned it (and then come back in for more). But these dealers live in the all-too-real RTO world where stuff comes back all the time. It is called the rental business, after all.

But these dealers view picking up used merchandise as an opportunity in the making rather than as a burden. First of all, they know the details of what is being returned. Let's suppose that it's a 36-inch flat screen that cost the company \$600 brand new. Let's suppose further

that it has been out more than once for a total of six months and let's also suppose, for internal bookkeeping purposes, the company is using 18 months straight-line depreciation on its rental property. That means that the company is taking \$33 per month as an expense for every month that it owns that TV. After six months, the value of that TV on the company's books is \$400. Some dealers who don't know this in their souls only see a dirty,

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scratched-up TV coming back in to clutter up the showroom. This TV shows up badly next to the wall of brand new sets. Too many dealers figure that nobody is going to want it and don't bother trying to do anything with it.

## ONE DEALER'S TRASH IS ANOTHER DEALER'S TREASURE

The enlightened dealer, however, sees this previously loved unit for the treasure that it is. This dealer knows that for \$50 or so, the cabinet can be repaired and polished and made to look as good as new. He thinks that somebody will want this TV and knows that he can make a really good deal on it. He knows better than to try to rent it out for another 18 months at \$100 per month like the brand new ones. That won't work. He could get it back out on a 12-month agreement, maybe, or maybe he could sell it for cash for, say, \$600 or even a quick \$500, if he showcases the product and lets people know that he has some very good deals on used merchandise. Beside a new set with a cash price of \$900 or \$1,000, this set at half that price should fly off of the shelf. Then, the dealer has moved a unit and made room for another new one on the floor. He has made some lucky customer very happy with a really good deal and made the company some money. The dealer is selling that TV at his original wholesale cost and is still making a 33 percent gross margin overall on the unit. That is a great deal for the customer and a healthy return for the dealer.

Now, he did not maximize the rental revenue potential of that unit and he knows it and doesn't care. Instead, he sold it. He sold it cheap and he sold it quick. The company only grossed \$1,100 on the TV, not the full \$1,800

he would have gotten if the set had been rented for the full 18 months, but he moved the unit in seven months instead of 18. There is interest being paid during all of those months and there are transaction costs associated with each rental and so while the company may have made \$700 less than the full potential on the set, there are also savings that the company enjoyed by making a quick disposition.

## OUT WITH THE OLD, IN WITH THE NEW

It is common wisdom in the industry that new stuff sticks better than used. So, over time, if the used stuff is cycled through the system with vigor and focus, there will be a higher mix of new items on the floor. That will mean a higher keep rate. That, in turn, will mean happier customers, fewer pickups, fewer transactions, lower transaction costs and a generally happier, more updated store.

Some rental dealers will say, "that's not enough." Some rental dealers want those VCRs that generate \$5,000 over years that *The Wall Street Journal* took such offense to several years ago. There are doubtless dealers out there who dream of having a store with only fully depreciated merchandise lying around. To them, every real dollar is profit, all \$20,000 per month of them. It is a way to run the business, but it is not *the* way to build big stores and grow big revenues. The secret to big stores is to turn rental inventory. And big stores are fun places to own, work in and shop in. There is, in the first place, more new stuff on the floor, because the rental inventory keeps turning.

If rental dealers had really good deals on used merchandise, first of all, and then made a point of telling people about it, they would move more of it.

Some stores have policies of never having a rental term less than 12 months. Others won't rent for less than six months. Why? If a unit has been depreciated down to \$200, why not sell it for cash for \$250 or rent it for three months and make \$300 and get rid of it and turn around and buy a new one?

If the industry really wants to expand its customer base, it needs to market to one its real strengths—solid, functional, lightly used goods at bargain basement prices. If the industry got serious about moving used stuff, it could bring more customers through the doors.

Customers who would never do RTO might well come in to pick up a bargain on some used electronics. But it will not happen, alas, as long as too many rental dealers hate the stuff and only suffer it being in the store at all, much less sing its praises to the public.

Once these dealers learn to embrace their used idle, as some have, they can learn how to move it. They can grow bigger stores, generate more revenue, encounter more customers, and have more fun. Here's hoping that in this New Year, some daring dealers will give it a try. ■

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