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ental dealers, wake up! The age of plastic transactions is upon us. If you and/or your stores are not currently wired to accept credit, debit, ATM and/or cash cards, you are not only losing out on offering flexible payment options for your customers, but also may be losing out a very profitable opportunity to boost your bottom line. Check out these facts: In 1980, 56 percent of American adults carried around

at least one credit card in their wallets. By 2000, that figure surged to 76 percent, according to *U.S. News and World Report*. Add to that figure the boom of debit cards, which accounted for 26 percent of in-store (not just rental store) transactions, compared with 21 percent for credit cards in 2001. That was the first year that credit card use fell behind debit cards. The future of plastic transactions cannot be ignored.

# THE FUTURE OF PLASTIC TRANSACTIONS IN RENT-TO-OWN

BY JULIE SHERRIER

**M**cDonald's has taken the broad step of accepting plastic for fast-food purchases and so have many rent-to-own dealers. However, there are plenty of dealers out there who remain steadfast in their opposition to adding debit/ATM or credit card transactions as acceptable payment methods for RTO agreements for several reasons, including the costs involved. Yet, more and more dealers are finding that there are some true benefits to accepting plastic transactions and that the minimal fees involved do not outweigh the convenience for customers and the instantaneous payments.

Historically, the RTO business was a cash-only transaction. Then dealers started accepting checks, which brought along its own set of headaches in the form of insufficient funds, forgery and check-floating issues. In fact, as many rental dealers know, check-writing problems and schemes got so bad that the late Ernie Talley of Rent-A-Center decided several years ago that his stores would no longer accept checks—but Rent-A-Center stores *do* accept credit and debit cards as well as cash and money orders.

#### REVENUE FOR THE TAKING

According to UHR Rents' Ernie Lewallen, 95 percent of all his nightly deposits were made in cash or money orders back in 1981. Today, Lewallen estimates that 15 percent to 20 percent of his daily receipts are being paid in some electronic form. "Our stores are seeing quite an uptick in our customers using ATM or debit cards when making payments," says Lewallen. "And the transaction is instant. The money is transferred into our bank accounts immediately. The fees involved are minimal compared to the convenience of the service."

Convenience is the key word here—and flexibility. The cornerstone of the RTO transaction has always been taking care of customers by offering convenient and flexible arrangements so that they can obtain the products they need for their homes. "The true value of the RTO transaction is being flexible and that includes offering a variety of payment options," says Kevin Quinn of Quality Rentals, based in Tacoma, WA. Quinn says that at least 25 percent of his stores' revenues are made with plastic. "My metropolitan stores in mid-sized cities have even posted 32 percent revenue from credit or debit transactions."

Visa check cards—the dominate player in debit cards in the United States—withdraw funds directly from a customer's checking or savings account. Those funds are then instantly credited to a store's bank account. More than half of all transactions processed by Visa during the first six months of 2003 were performed with Visa debit cards. More than 132 million cards were issued in that same six months by 8,700 financial institutions, generating 3.6 billion transactions totalling \$134 billion in sales volume. And that's just six months! The average transaction amount is \$37.49, according to Visa.

Americans used VISA- and MasterCard-branded debit cards for

more than \$576 billion in purchases and cash advances, a 16 percent increase over the previous year. Since 1998, consumers have racked up more than \$2 trillion in signature debit card transactions.

"Today, most people can open some type of banking account somewhere," says Lewallen. "All you need is some type of state identification."

#### ARE YOU READY TO MAKE THE SWITCH?

Some RTO dealers just haven't made the mental leap to plastic transactions, yet. "My customers don't seem to be clamoring to make their payments via debit/ATM or credit cards just yet," says Gary Romine of Show-Me Rent-To-Own in Farmington, MO.

"If anything, debit cards would be something that we'd consider, but with our margins getting tighter, I can't justify the upfront costs of installing the machines and then the fees for processing the transactions," says Romine. "However, I may be forced to make the change in the near future in terms of convenience, but right now, I don't see the value-added benefit."

Credit card usage among RTO customers is certainly not unheard of, despite the fact that a large percentage of the RTO customer base has been described as low-income and non-banked. As Lewallen stated, all one needs is a valid state identification to obtain a bank account.

## CONSUMERS BEAR COST OF DEBIT TRANSACTIONS IN CANADA

A new study suggests that Americans saved more than \$4.3 billion in debit fees last year when compared to the system utilized in Canada. The research by Dove Consulting for PULSE found that every major bank in Canada charges its customers a per-transaction fee every time they use their debit card. Canadian consumers pay a fee of C\$0.50 to \$0.60 for each electronic payment transaction, whether making a purchase or getting cash from an ATM.

Canada has only eight major national banks, which control 93 percent of banking assets. By contrast, the U.S. has more than 17,000 banks and credit unions, and the eight largest banks control only 41 percent of banking assets. Canada has only one electronic payments system and consumers have access to only PIN-based debit.

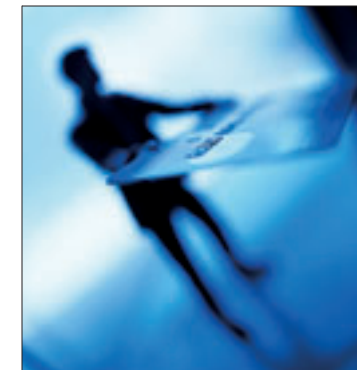
Furthermore, Canadian merchants pay no interchange fees for a debit transaction, whereas U.S. financial institutions receive revenue for use of their databases and for guaranteeing payment for every transaction. The study concludes the Canadian model is unlikely to be embraced in this country anytime soon.

Hometown owner/operator Sidney Burton says he was skeptical at first about installing a credit card terminal in his store. He just didn't think it was going to be necessary, but after talking with several other small-town dealers at an APRO meeting, he changed his mind.

"I'm just a one-store operator in a town with 16,000 people. I thought installing a terminal was big-city stuff, not for rural northern Michigan. I was proven wrong. While I

## CREDIT CARD USAGE: ARE AMERICANS MORE RESPONSIBLE THAN PREVIOUSLY THOUGHT?

According to Fair Isaac Corp., a global leader in credit management solutions, today's consumers have a total of 11 credit obligations on record at a credit bureau. These include credit cards and installment loans. On average, today's consumers are paying their bills on time. Eight-five percent of all consumers have never had a loan or account that was 90-plus days overdue and less than 10 percent have ever had a loan or account closed by the lender due to default. About 48 percent of credit card holders carry a balance of less than \$1,000. About 10 percent are far less conservative in their use of credit cards and have total card balances in excess of \$10,000. Fifty-four percent of consumers carry less than \$5,000 of debt-excluding home mortgages. The typical consumer has access to \$12,190 on all credit cards combined. More than half of the people with credit cards are using less than 30 percent of their total credit card limit. Just one in eight are using 80 percent or more of their credit card limit.



"I'm just a one-store operator in a town with 16,000 people. I thought installing a terminal was big-city stuff, not for rural northern Michigan. I was proven wrong. While I didn't have customers beating down my door asking me to take their credit cards, once we offered it I was surprised at how many people have taken advantage of it."

And you probably don't even need that to obtain a credit card. And to attract a wider variety of customers, offering flexible payment options opens the doors for growth rather than pigeon-holing the industry for one particular demographic group.

Jim Darou, account manager of Hometown Ventures, a one-store operation in Sault Sainte Marie, MI, says that his store has been accepting credit cards for four or five years now. He has, however, seen an increase in the usage of debit cards and says that he now processes more debit transactions than credit transactions. "Plastic transactions do account for quite a bit of our business, but the majority of our customers still pay in cash or with money orders," says Darou.

didn't have customers beating down my door asking me to take their credit cards, once we offered it I was surprised at how many people have taken advantage of it," says Burton.

Burton also says that having a credit card terminal really helps with his collections efforts, especially if his customers are traveling or can't physically make it in to the store to make payments. "A traveling customer will call us up and ask us to run the payment on their credit or debit account," says Burton. "As a pol-

icy, however, we don't keep that information on file and don't make charges automatically."

Today, between 20 percent and 30 percent of Hometown's transactions are made through the credit card terminal. "We have made the cost for the terminal back over and over. We want to make it easy for our customers to keep their accounts active. It's one more opportunity to keep the product in our customer's homes. Any expense concerns that I had upfront has paid off in our collections efforts," says Burton.

Burton admits that at first the thought of his customers paying with credit cards would not be a good idea because if they didn't pay their credit card bills, then his BOR would decrease due to a higher collection rate on unpaid accounts. "But there has been no hint of that kind of behavior among my customers at all. It has not become an issue that we have had to deal with," he says. "After all, I can't manage my customer's money for them. We can help them figure out what works for them with our rental agreements, but if the credit is available to them and they are using it, it's not up to me to decide whether or not they can use credit in my store. It's just another payment option."

Quinn of Quality Rentals couldn't agree more. "We have accepted credit cards for 15 years," he says. "We used to process them the old-fashioned way with the slide machine, but that only accounted for about 2 percent to 2.5 percent of our business. But as our business changed—we target higher-end, plastic-carrying, customers—offering that payment option was not optional. We have customers we never see after their initial visit. They just call in to renew their agreement via credit or debit. And the volume of plastic transactions increases every year.

"We complain sometimes about not reaching as many customers out there as possible," says Quinn. "This is one more way to open the door a little more. I've had customers who originally came into our store with bad credit, but 10 years down the road they are credit-worthy and still doing business with me. There are two kinds of shoppers: those who buy things based on price and those who buy things based on service."

Last year, Quinn says that his 16-store chain generated more than \$4 million in plastic transactions. "If it costs me 2 percent to get that revenue, then it's worth it," he says. ■

*Julie Sherrier is the editor of Progressive Rentals magazine.*

## PLASTIC TRANSACTIONS: HERE'S HOW TO SET IT UP

**A**PRO spoke with Dan Ross of Card Payment Systems, a TRIB Group-approved vendor, about the various fees involved in accepting plastic transactions. "We offer standard pricing, but offer major discounts for TRIB members for offline debit transactions," says Ross. Offline debit transactions don't require a PIN number whereas online debit transactions do.

The cost of the hardware—terminal and printer combinations—can either be purchased or leased and range anywhere from \$250 for a refurbished unit (visit [www.merchantwarehouse.com](http://www.merchantwarehouse.com)) to \$649 from Card Payment Systems for the Verifone Omni 3200. Discounts are available for multiple units. Adding PIN pads costs from \$50 to \$100 more per machine and it would behoove dealers to buy an all-in-one rather than the add-on PIN feature (check out the Hypercom T7Plus). The various transactions and processing fees may seem complicated at first, but according to numerous rental dealers, are minimal compared to the convenience of the transaction.

"There are two schools of thought among RTO dealers who process plastic," says Ross. "One school refuses to do key-entered transactions as there is the potential for a customer to contest the charges. The other school uses key-entered transactions as a collection tool and pays the 2.10 percent fee."

Ross also warns that "this industry [credit/debit] thrives on the hiding of fees" and cautions dealers to educate themselves on how they are being charged for the different transactions.

Here are some tips from the Merchant Warehouse Web site:

### SELECTING CREDIT CARD EQUIPMENT

**W**ith so many different types of credit card processing equipment on the market these days, choosing the correct type for your business can be a daunting task. Before you get started there are a few questions you should ask yourself.

#### **Will I be 'swiping' the cards through a terminal or will I be 'keying' them in because the card is not present?**

Most retail businesses have the ability to swipe the card because their customers are present at the time of the sale. These merchants should consider a traditional terminal and printer. However, some merchants will not have this luxury and may want a system that is more suited to their specific needs. Software packages are available if there is a PC at the business location. Otherwise, a standard terminal and printer will work fine.

#### **How many transactions a month will I be doing?**

Merchants who are doing more than a few transactions a day may want to consider a terminal with a thermal printer. Thermal printers are not only faster, but, because they have

fewer moving parts than a traditional dot-matrix printer, they are also less likely to fail. Thermal paper has come a long way in the past few years and is now much more resistant to fading and yellowing compared to old-fashioned thermal fax paper. Some older model terminals and printer units now come in thermal versions for only a few dollars more.

#### **Is there a phone line available at the business location?**

Most businesses have at least one phone line at their business location and since credit card terminals can share the same line you use for your phone this is usually not a problem. However, some merchants such as trade show merchants may find it cost prohibitive to have a phone line installed at each location they travel to. For these merchants, they should consider a wireless terminal that works similar to a cell phone.

#### **Do I need a printer?**

Technically, merchants are not required to have a printer. However, considering there is usually only a small price difference between a stand-alone terminal and an integrated terminal and printer unit, it is a good idea to purchase a unit that has a printer built in. Adding a printer after the fact is usually more costly. You should check out the full price list and compare the prices of terminals to integrated units before buying.

#### **Will I be accepting debit cards?**

For those merchants who think they will be accepting debit cards, they should consider adding a PIN pad to give their customers additional payment options.

#### **How many merchant accounts will I have for my business?**

For almost all businesses, the answer is one. However, in some cases, a business may have more than one. Some examples are businesses that do a large volume of phone-order transactions and also do a large volume of swiped transactions. For these merchants there is a cost benefit to having a second merchant account. Also, some doctors and other professionals may share an office and run separate businesses out of the same space. These merchants may need an additional account for each business. Some merchants will opt for the Verifone Tranz 380x2, which supports two applications in a single terminal. However, most merchants will use a Nurit 2085 or similar terminal that can hold multiple merchant accounts.

#### **Which brand of terminal is right for me?**

Your processor may work better with a particular brand of terminal. Typically, almost all of the major brands of credit card equipment will work with most major processors. If you've already decided on a particular brand of terminal, you may want to check out that brand's latest model. Advancements in credit card terminals have been brisk over the last few years. Newer designs allow you to do more and are usually easier to work with.

### MERCHANT ACCOUNT RETAIL TIPS

**A**lthough retail merchant accounts are the most straightforward types of merchant accounts, you still will want to educate yourself on how to set up the account. Follow the tips below and you'll avoid some of the possible pitfalls of setting up a retail account. Give yourself

enough time; while it's true that most merchant accounts can be set up in a day or two, it does sometimes take longer. It's a good idea to start thinking about setting up a merchant account at least a few weeks before you plan on using it. While you will probably be pleasantly surprised about how quickly you get set up, nothing could be more nerve wracking than waiting for the delivery of your credit card terminal on your businesses opening day. You will have plenty of other challenges in those last few days before you open your doors.

#### **Your local bank may not be the answer.**

While most merchants like the idea of doing business with their local bank, many do not realize that the bank may have little experience setting up merchant accounts. Smaller banks may refer their business to a third party to do the processing and receive a commission for doing so. Going directly to the processing company will usually save you time and money. You can still have your funds deposited into your account at your local bank.

#### **Understand all of your fees.**

When you first get a quote for merchant services, some fees may seem a bit foreign to you. Don't worry, though, after you take a few minutes to go through the fees it will seem simpler than your phone bill. Take the time to go through your application and ask questions about fees you don't understand. Taking the time to go through the fees may save you an unpleasant surprise when you get your first merchant statement.

#### **Average ticket and monthly volume.**

Every processor will ask you to estimate what your average sale and monthly credit card volume will be. While most processors give a lot of leeway to retail businesses, you still will want to give this some thought. If you guess too low, you may find yourself under the watchful eye of the loss prevention department when you go way above your expected monthly volume. If you guess too high, you may subject yourself to some extra paperwork and background checks during the application process. Take the time to talk with your sales representative and figure this out. Most sales reps will have plenty of experience estimating volumes and average tickets and should be able to help.

#### **Don't sign a contract with a cancellation fee.**

As a retail business owner, you will find that it is fairly easy to get a merchant account. Don't settle for a processor that has a contract of any length and charges a cancellation fee. Very often merchants will find themselves dissatisfied with the level of service they are receiving and may want to change processors. Ask about your cancellation fee and get details on how you would cancel your account. Some processors may have contracts that automatically renew if you don't give written notice more than a month before your contract expires. Also, beware of sales people who claim that "even though you have a fee in your contract, we never charge it."

*To find out more, visit [www.merchantwarehouse.com](http://www.merchantwarehouse.com) and/or call the TRIB-approved vendor Dan Ross at Card Payment Systems at 866/757-7442.*