



Rental in my Rearview Mirror

Reflections along the road by Bud Holladay

So the Big A turns 20. Two decades of chills and thrills, right? Well, sort of. You see, too many folks in our line of work think everything started in 1980 at that first meeting in Dallas. But that's like believing the neighbor's kid was born at the age of 12 because that's when we first started noticing him. In fact, the rental business was thriving in certain parts of the country as early as the 1960s. We just got serious about it in 1980.

Of course, if you're a regular reader of this publication, you probably already know that. On the other hand, if you are one of the people who saw Elvis at Burger King last week or have solid evidence that JFK is alive and stored in a deep freeze somewhere in Utah, you probably have your own ideas about the origin of things, anyway. Somewhere in the APRO offices there must be a plaque reading, "In Business Since 1980. At least." We welcome all.

It's hard for anyone who wasn't around B.A. (Before APRO) to understand the profound effect that the organization has had on the way we make our living. Imagine a landscape with no legislation, no public financing, no national market, no dedicated vendors, no disclosure, no "right to rent." Just 1,200 owners with 800 ideas on how to define the business.

Sometime in the future, cave paintings will show that Ernie Talley started renting washers and dryers out in Wichita, KS, at Mr. T's Rental at about the same time a guy named Slats (Norman Slatton) was doing the same thing down in Florida and calling himself Buddy Bi-Rite.

1980

3M's Post-It notes introduced

July 1980

In Dallas, the first meeting of rental dealers

November 1980

Incorporation of the Association of Progressive Rental Dealers Association. Ed Winn III appointed executive director of APRO

December 8, 1980

John Lennon killed in New York City

March 1981

First issue of The APROach is published

March 31, 1981

President Ronald Reagan shot by John Hinckley Jr

June 1981

Official announcement of the AIDS epidemic by the Centers for Disease Control

July 1981

First annual APRO convention and trade show held in Dallas

April 1982

Face-off in the Falklands

1983

The compact disc and the computer mouse introduced

April 1983

First federal RTO bill introduced

July 1983

First federal public hearings held on the industry in Washington, D.C.

November 1983

Rent-A-Center becomes the first rent-to-own company to go public on Wall Street

1984

Michigan first state to adopt rental-purchase statute; U.S. Senate passes bill defining transaction as a lease

1984

Apple Computers introduces the Macintosh

November 1984

Progressive Rentals debuts, replacing The APROach

1985

Texas, Georgia, South Carolina and Alabama pass RTO legislation

March 1985

Mikhail Gorbachev becomes Soviet leader

September 1985

Wreck of the Titanic found

December 1985

Elizabeth Johnson hired as APRO executive director

1986

Massachusetts and New York pass RTO legislation

January 1986

The space shuttle Challenger explodes with schoolteacher Christa McAuliffe aboard

December 1986

Charles Stuckey hired as APRO executive director

1987

They didn't know each other existed. It took about 20 years for the golden spike to be pounded in downtown Dallas and link the continent - or at least a fair number of its furniture salesmen and appliance manufacturers.

It should come as no surprise that it took the industry 15 or 20 years to get organized. This is, after all, the same group of folks who spent more than a few happy hours calculating just how long it would take before everybody in the surrounding zip codes had both a TV and a stereo. At which point, presumably, we'd cash in our tickets and occupy a spot on the front porch until the roll was called Up Yonder. Who'd have guessed Up Yonder would turn out to be Wall Street?

Maybe some of us are reluctant to acknowledge the industry's existence B.A. because we are: a) ashamed of how easy it was to generate balloon-like margins in spite of ourselves; or, b) ashamed of balloon-like margins.

It's a fact that distribution of big-ticket items to people on the underside of the economy - in an era when those folks didn't show up in anybody else's marketing plans - was both profitable and easy. It was understood that none of us would likely win the Leadership Award down at the Friday night Jaycees. In fact, some local chambers of commerce seriously debated our eligibility for membership.

It wasn't uncommon in those B.A. days to be snubbed by the guys who sold product to local retailers. Some salesmen wouldn't solicit our business for fear of alienating their "good" customers. The guys who did sell to us had a better handle on the scope of our industry than we did. We tooled along in ignorant bliss, each happy to be the first to think of this deal.

Some of us found unique niches, like renting ladies' wigs by the week (don't laugh - we moved a lot of wigs, and not just in a strong wind, either). But anyone who wanted to rent furniture had to get around the objections of the biggest lender to the industry, who declared that no rental furniture could possibly last long enough to get our cost back. Today they're out and room groups are in. Go figure.

Advertising generally consisted of a \$300 schedule on local radio, which produced more deliveries than most guys could handle. Paid-outs and charge-offs were all but unheard of due to airtight collections.

Previous customers coming back later routinely started over. In fact, the phrases "rent to own" or "rental-purchase" weren't part of the vernacular until about 1980 or 1982. Up until then, it was simply "the rental business."

Since the industry was largely concentrated in big cities, the customer base was primarily Appalachian or African-American, mostly poor and absolutely without access to any kind of financing for big-ticket purchases, not even layaway. Some dealers dispute that characterization and swear their average customer looked more like June Cleaver on credit hold. Truth is, the New South might have been born by then, but it wouldn't be old enough to vote for a few more years.

The rental business had always had low barrier to entry. By 1980, the slicks had moved in. Their résumés were spotted with failed car lots and shaky loan companies and high-commission boiler rooms. That the boys with plaid coats and shiny hair could so quickly establish a toehold with shabby goods and outrageous collection tactics was worrisome to the rest of us. But it wasn't the loss of customers we feared: it was being put out of

business by some state court enraged at the latest humiliation inflicted on some grandma unlucky enough to miss a payment. So the farmers called a new sheriff to town: APRO.

Longtime vendors helped put together a mailing list and other people added names of friends or a company some sales rep had said was doing a lot of business two towns over. It must have been the rental industry's most successful mailer because 50 or 60 rental dealers showed up at a hotel in Dallas in 1980 when there was no golf tournament, no banquet and you had to buy your own drinks.

An idea became a body when all those in attendance put up money and voted to organize for change and improvement. Almost everybody there knew somebody who'd been hauled into court to talk about usury laws or forced to give away truckloads of televisions to kids in raggedy tennis shoes because we collected too many late charges from one or more of their relatives.

After a few false starts - nobody could decide whether we should be a lobbying group or an industry watchdog - APRO began changing the way people who write and enforce laws viewed our industry. And those changes were startling: full disclosure contracts, expanded customer rights, civilized collections, and - despite flack from mossbacks who believed good government was less government, unless it was handing out tax breaks - regulatory oversight over just about every aspect of the business. Even down to the size of type in the contract.

The mossbacks thought APRO had stopped mending and started meddling. Some stomped out, taking their checkbooks with them. We didn't need regulation, they yelled, we just need the bad guys the heck out. We came to realize later that their idea of "bad guys" included anybody who might want to get into the business, especially in their ADI.

APRO directors and supporters argued that airlines had been subjected to the closest scrutiny for years and they seemed to get along fine. Somebody would always point out that, while airplanes and their pilots might need watching over for obvious reasons, nobody ever heard of a rental store crashing and killing 85 people. When rental stores crashed, they said, the only things that died were the careers of a few vice presidents and store managers (if you've ever worked for either one, you know that might not be a crime or even a tragedy).

Dealers cleaned up their acts and the doors gradually opened to a national market "safe across all borders." Naturally, a few smart and hardworking fellows, realizing that the average dealer no longer had to fear being set afire and run out of town, thereupon reached the conclusion that this business was made for Wall Street: niche market, good cash flows, sizzle.

Then they learned that Wall Street likes real profits, the kind measured in dollars, not represented in horsepower and acreage. Just as quickly as it had rolled off the press, one prospectus after another was rolled up and became a table leg wedge in somebody's apartment. You might think this is where the phrase "on the level" originated, but there is no evidence to back that up.

By the early 1980s, Chuck Sims' Houston-based Remco operated stores that were generally admired for setting new standards. Why, they actually had clean plate glass, new carpet and professional displays of brand new goods available that very day! The people who worked in those stores looked more like the folks next door than the guy in the competitor's basement dialing up your Aunt Louise and threatening her dog for another payment. The

business had arrived.

Sims, who had started his career as Ernie Talley's point man at Mr. T's, had figured out what others hadn't: hire smarter people, put them in attractive surroundings and they will, in turn, attract and keep customers who act like buyers and not renters. Sims knew it was cheaper to keep customers than replace them. If you have ever tried to figure out a formula for keep rate, forget the math and follow Sims' lead. It still works. What seems ordinary today in store layout and merchandising was radical and ahead of its time in 1980.

(Side note: Without the dynamic leadership and unwavering support of Chuck Sims and others like him, there's no guarantee that APRO would be here today. Some people write checks, others lead. Sims did both. You should be thankful. You should also be glad that he's not still in business and competing against you.)

When Remco's premature IPO was shelved for lack of interest, hardly anybody noticed. Except, that is, for a gregarious young man named Thomas R. Devlin. Devlin had also been trained in the Ernie Talley school (see a trend here?). Rent hard. Collect fast. Spend little. It worked.

Devlin attracted investors willing to develop expensive markets with multiple S&S Rental Center stores so long as Devlin would buy them all back later, after the stores had depleted all available tax breaks but still had plenty of BOR left. He snickered behind the potted plant and agreed to their outrageous demands. And that is how a former Mr. T's manager trainee in Baton Rouge, LA, came to own the world's largest rent-to-own operation.

Devlin's ability to recruit investors and managers when everybody else was trying to recruit customers and collectors eventually resulted in a successful initial public offering that opened the floodgates. Suddenly there was a river of public money for an industry starved for financing.

About a year after Devlin's IPO, one foolish young owner in Dallas turned down Devlin's bid to buy his company on the spot for a little cash and a lot of stock at eight times revenue. Eight is less than the 12 thrown around these days, but when sales are \$1 million a month in 1980s dollars, debt is one turn and you're looking at eight on the offer sheet, it's all relative. That young owner's name is at the top of this article; Devlin's name is on a lot of luxury car dealerships and real estate deeds and at least one business chair at his alma mater.

When S&S Rental Center became Rent-A-Center and finally a Thorn in the side of anybody forced to compete against its mega-stores and their drilled and driven managers, the industry took notice. We looked around at shabby showrooms, dull people and even duller marketing and decided that we had either get into the game or hit the showers. After a little polishing up, some companies were out of business - sold to the Rent-A-Centers - while others were opening new stores and buying the small competitors that had seemingly sprung up in every market. Lenders came out of the woodwork when Wall Street bought into this rent-to-own thing.

None of that would have been possible, or at least very likely, without the safety net strung by APRO. If you ever wonder what all those dues have bought you, consider this: today you have the choice of either a well-funded retirement via a sale to a public company or a safe environment for all the rent-to-own you'll ever want to do. Not a bad choice and you get to do the picking.

What APRO couldn't forestall was the eventual collapse of scores of operations whose owners had been able to borrow more than they could manage.

Dizzying growth had been achieved not by internal cash flows and good management, but by acquiring entire chains using revolving credit lines from a friendly trio of commercial lenders. Eventually, the cash flows couldn't support the sky-high interest charges and bloated overheads. Companies built on credit line instead of business plan failed. The situation eerily paralleled the implosion of the nation's savings and loan industry of the same period. Except in our business, nobody went to jail. Hardly anybody passed Go, though.

By 1988, Transamerica Rental Finance Corp. found itself operating more than 400 repossessed rental stores nationwide and not much liking it. In what was truly a magic moment, the guys holding the debt quickly put up new signs, standardized operations and called it a company. Then they set out to find buyers for their company. Along the way, they got out of the business of loaning money to rental dealers.

The result was a shockwave. Dealers whose loans weren't in default desperately searched for buyers on the (often accurate) assumption that they soon would be. Inventories shrank, credit lines evaporated and companies slowly went out of business waiting for buyers to show up.

It was a wake-up call for an industry theretofore awash in borrowed money and big dreams. Companies were forced to sell out or strengthen their balance sheets, stabilize their operations and work with their local banker to develop a sensible credit facility. In a testament to the market, the end result was more stores in more markets than ever before.

Without the orgy of easy money that marked the period 1980-85, it's doubtful that the number of public companies devoted to rental-purchase today would be more than one. Out of chaos comes opportunity for the prepared and the well-heeled. And so we find ourselves entering our third decade in a business declared dead more times than Regis Philbin's career. And now everybody can be a millionaire. Well, almost. I've always been suspicious of people who wear buttons that shout out, in so many words, "Hey! I'm An Honest Guy - Honestly!" However, I've never been afraid of losing my wallet or my ideals when some new guy introduces himself, sticks out his hand and asks, "So how much money do you think one of these stores ought to make?"

Bud Holladay is a former president of APRO and founder of the Association. He is currently chief operating officer of RTO Inc., based in Norfolk, VA.

RTO by the Numbers

Year	Number of Stores	Annual Revenue	Annual Customers
1983	3,000	*	*
1984	4,000+	*	*
1985	5,000	*	*
1986	5,500	*	*
1987	6,000	*	*
1988	6,300	*	*
1989	6,500	*	*
1990	7,000	*	*
1991	7,500	\$3.5 billion	2.9 million
1992	7,500	\$3.6 billion	3.1 million
1993	7,500	\$3.9 billion	3.6 million
1994	7,500	\$4.5 billion	3.4 million
1995	7,500	\$3.8 billion	2.7 million
1996	7,500	\$3.9 billion	2.8 million
1997	7,500-8,000	\$4.1 billion	2.9 million
1998	7,500-8,000	\$4.4 billion	2.8 million
1999	8,000	\$4.7 billion	3.3 million

* Figures not available