



RTO: Yesterday, Today and Tomorrow

By Ed Winn III

There is an old French aphorism which, loosely translated, reads, "The more things change, the more things stay the same." At the millennium, it is worth a look back and a look forward to see what has changed and what might change in the future for the rental industry. Going back 20 years, there was no trade association and there were only a handful of rental dealers across the country. When the trade association was born in 1981, the industry giant was Remco with 50 stores. There were no laws relating to the business and it was rare for rental dealers to disclose either the cash price of the property or the total rental-purchase price to customers in the agreements. Legal aid lawyers sued rental companies occasionally, usually when a customer was provoked. Suits were filed in federal court alleging violations of Truth-In-Lending. The industry won these early cases or it might not have grown like it did.

Curtis Mathes was one of the major TV brands, popular in rental stores, and billed itself as "the most expensive TV in America and darn well worth it." The company hyped its 25-inch console, which was the largest TV available at the time. TVs were the mainstay of the rental business. In some stores, it was the only product. There were no remote controls. VCRs had not been invented yet. Furniture was being rented, but mainly to apartment complexes and not through rental-purchase stores.

Showrooms were tiny by today's standards, maybe 1,000 to 1,500 square feet. Early stores carried TVs and stereos. Progressive stores might have had a few white goods. The standard rental term was 18 months and the average monthly yield per unit was \$60. There was no leased property insurance and no damage waivers. The common wisdom was that if such add-ons were offered, soon a dealer would have no inventory left. There were maybe 400 stores in the entire country, each with an average BOR of 500 units. Rental dealers occasionally swapped stores in those days for four to six times monthly revenues. The weekly/monthly mix was probably more weekly in those days.

There were no personal computers in 1980. Remco had a creaky mainframe in its home office with big spools of tape. Otherwise, there were no computers in any rental stores or home offices. Rental dealers counted payment history cards by hand every Saturday night.

A few visionary dealers saw the industry's potential even then. Tom Devlin rolled up 300 rental-purchase stores as quickly as he could and went public in 1983. By 1986, Bud Gates was telling people that he intended to be the head of a \$1-billion company. It is easy today to wonder who would ever have thought in those early days that a single rental-purchase company would have more than 2,000 stores in the year 2000, but there were some ambitious rental dealers with dreams of empire 20 years ago. Even with these dreamers, it is probably fair to say that few 1980 rental dealers thought that they would still be renting TVs in the year 2000. And only a handful of those 1980 dealers are still at it.

Business as Usual?

What can we expect 20 years from now? Will there still be a viable, healthy rental-purchase industry? The certain prediction is yes. Whatever the economic circumstances of the country over the next 20 years, there are still going to be consumers going through abrupt and unexpected life changes, consumers with short-term needs, consumers who want the flexibility and choices that rental-purchase offers and consumers without credit. This conclusion assumes that traditional retailing will still be around in 20 years and will not have been totally supplanted by e-commerce. In support of this assumption, social commentators

have noted lately that shopping in malls and other brick-and-mortar stores, in addition to being a quest for goods and services, is also an important social occasion. People, especially young people, go shopping to see and to be seen. The predication is that even if e-commerce becomes the most efficient means of acquiring goods, consumers will still go out and shop for the social aspects of the undertaking. If that is the case, then rental stores can play an even larger role in American commerce, since the traditional weekly visit to the rental store is often as warm and friendly a social experience as rental customers have anywhere except maybe at church or at the backyard barbecue. Rental dealers can watch this trend and profit from it by continually ensuring that customers' experiences in the store satisfy the socializing aspects of shopping as completely as possible.

The Future is in Electronics

What will the products be? In an age of technological explosion, conjecture about the products of the future may be the most difficult. Furniture probably won't change much. It hasn't changed all that much over the past 20 years. The prediction is that people will still be sitting on sofas, sleeping in beds and eating at dinettes 20 years hence. Electronics is another matter altogether, however. In 1980, wholesale volume of consumer electronics in the United States was just under \$11 billion. In 1998, the figure was more than \$75 billion. Remember that in 1980 there were no VCRs, no DVDs, no MP3s, no cellular phones and no personal computers. Today there are TVs that are 3 inches thick that hang on the wall. They are certain to get flatter still and bigger and rental customers are going to want them, just like everybody else.

Watch for the notion of "cocooning" to expand. American consumers are increasingly finding their entertainment at home. Few people today can afford hundred thousand dollar top-of-the-line home theater systems, but already in 1998, 20 percent of American households owned a home theater system with an average retail cost of \$3,000. Watch for the whole concept of home entertainment to expand with the continued evolution of existing machines and the inventions of new machines to bring all aspects of entertainment and information into consumers' homes. TVs and VCRs and DVDs and stereos and computers will all get joined together, somehow, and without wires.

Watch for the advent of Internet appliances, which the Consumer Electronics Manufacturers Association estimates will be how 50 percent of Americans connect to the Internet as early as 2002. It will not be too long before Internet access is as ubiquitous as the telephone is today; it will soon be available literally to everyone on Earth. Watch for personal devices, so small and versatile that people carry them all the time to stay in constant contact with all that is going on in the world. Some, perhaps many, consumers will want to rent them. Whatever technological developments occur for consumers, the rental industry will have the chance to package those products for their rental customers.

Some Things Never Change

What will the rental purchase stores look like in 20 years? Will the superstore concept finally take hold of the rental industry or will e-commerce do away with the need for real stores altogether? Will the industry consolidate itself into one mega-rental chain or will "mom-and-pop" operators retain their viability? Rental stores from 20 years ago are still recognizable as rental stores. The windows may be cleaner today, the signage snappier, the interiors larger, the product mix wider, the displays more imaginative, but they are still rental stores. They all still have rental counters and back rooms. The prediction is that rental stores will still be recognizable in the year 2020. After all, Ernie Talley left the business for nearly 30 years and came back and picked it up again fairly well and fairly quickly the second time

around. He had to rent and collect in the '60s. He is renting and collecting in the '90s; whoever it is that is in the business in 2020 will still have to rent and collect. They will still need rental counters and back rooms.

The Need for Technological Expertise

The technological changes over the next 20 years will be exciting and challenging for the rental industry. Rental dealers will have to keep up, and the changes are occurring so fast that keeping up is not easy and will not get any easier. The industry will have to bring in some technical experts in addition to the good people-oriented employees that the industry hires today. It is going to take more than showing a customer how to click through the channels on a remote to explain and rent the products of tomorrow. Today, teenagers, the rental customers of tomorrow, want computer software that will download MP3 music from the Internet and then play it through their headphones.

The advent of personal computers and how the rental industry handled them over the past 20 years is a useful history to help project how the industry might handle vast technological change over the next 20 years.

The industry was quick to adopt computer technology for business purposes. Computer systems were developed early and at considerable expense to streamline record keeping at the store level and communications with the home office. Early computer systems were expensive and twitchy, but rental dealers embraced the technology and bought the early machines and software and upgraded them and generally were in the vanguard of small business computer development in the country.

Some systems in use today are sophisticated examples of what personal computers can do in and for a company, keeping and manipulating information about the enterprise and providing it quickly to those who can interpret it and affect operations accordingly. Few, if any, rental companies attempt to run the business today without heavy dependence on computer systems.

If the use of personal computers by rental dealers as a business tool is a history of innovation, vision and courage, the story of the rental of personal computers by the industry to customers is less compelling. While there are stores and even companies today with 20 percent of BOR in computers, they are the exceptions, as the industry overall last year had less than 2 percent of BOR in computers. Whole retail industries have sprung up to build, market, install and service personal computers while the rental industry has struggled to figure out how to rent them successfully.

One cannot ignore some lack of demand from traditional rental customers who have not yet placed personal computers on the list of must-have items for the house. But watch. Soon, and it will not take anywhere close to 20 years, everyone will be on the Internet. Rental dealers will have to figure out how to offer this service and the computer or other product that rents along with the service or lose the business to someone else - Internet stores, maybe, that will dot the malls like cellular telephone stores do today. Everybody that is on the Internet today is renting that service. The service companies are just entrepreneurial concerns. They are not regulated industries like the telephone company was for so many years.

Computers, and likely the new generation of Internet appliances, are such eminently rental items. They change rapidly compared to any other product. Owning products that quickly become obsolete is far less preferable to renting those kinds of products. If the

entrepreneurial fire keeps burning in the industry, then rental dealers will capture their fair share or more of what is already a huge market and one that is going to get a lot bigger.

Predictions about the future are always chancy and predictors are often wrong. The entrepreneurial drive that has propelled this industry for the past 20 years is a real phenomenon, however, and it is fairly safe to predict that this industry will continue to attract people with this spirit and drive. If that prediction is correct, it is then safe to predict that whatever external changes occur and however rapidly the rental marketplace evolves, rental dealers will move right along with those changes. The business has always been a resilient one, adapting to meet the wants and needs of its customers. It would be hard not to predict that the industry of the future will continue to be as resilient and light on its feet as it has been to date.