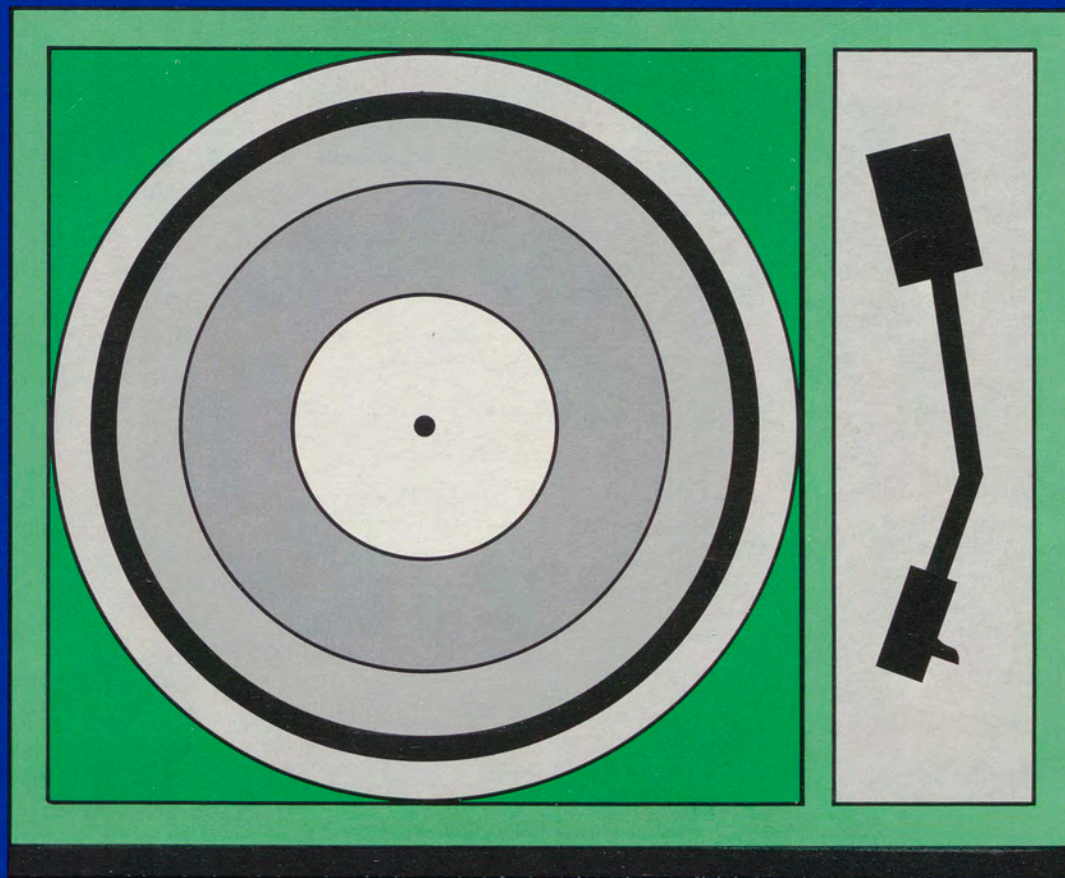


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the magazine of the home electronics, appliance, and furniture rental industry

Progressive Rentals



Audio Trends

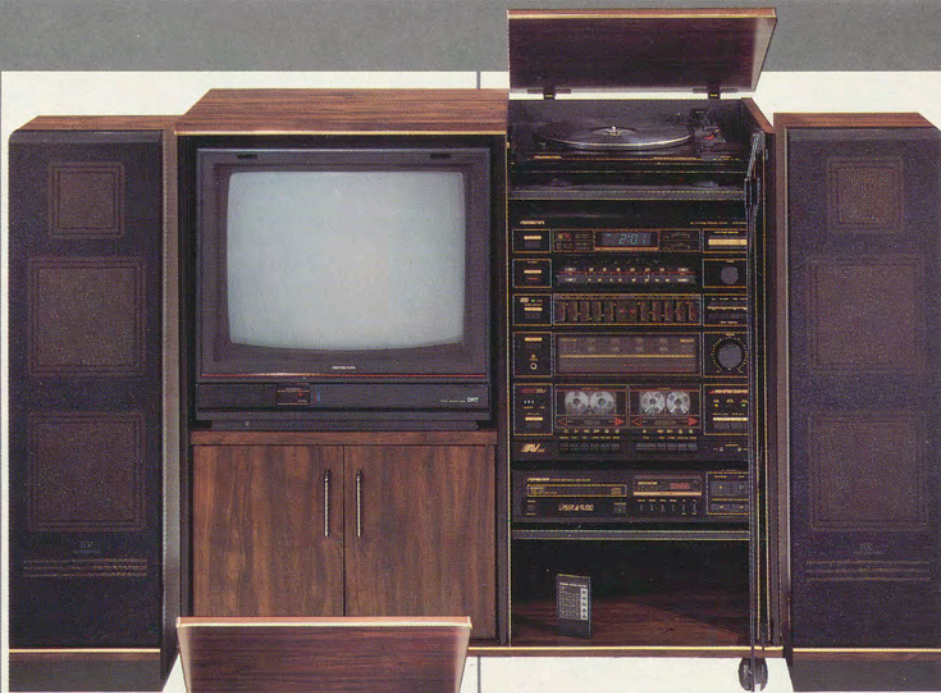
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THE EDITOR'S DESK

With the close of the year just around the corner, attention in the APRO headquarters turns to dues renewal for a majority of our membership. It is an important time of year for APRO and for the members it serves. APRO steps back and assesses what it has done for rental dealers while they, in turn, ask the question—What has APRO done for me?

Originally, APRO was organized to unite members of the rent-to-own industry and allow them to exist as a visible force in the retail community. APRO set out to help rent-to-own dealers improve their bottom lines by making key information available in the areas of collections, advertising, employee management, and taxes, to name a few.

The challenge of organizing and determining the pressing needs of a new business community and thoughtfully addressing such needs was formidable enough. To add to the challenge was a growing mire of legal attacks from consumer advocacy groups, the media, and numerous legal aid societies. APRO continued to battle against our many detractors while trying to keep industry problems from hampering the growth and prosperity of APRO programs. Without the sheer dedication of APRO members and staff to continue to juggle efforts and see a good idea through the storm, APRO could have easily sunk in the quicksand of lawsuits and bad press a long time ago.

The strength of APRO's success in representing the industry is directly a function of the size of APRO since APRO is funded in large part by membership dues. It is a common misconception among membership organizations that unless a member *directly* participates in the organization (i.e. orders publications, attends seminars or the convention), the member is not using the services, therefore membership is unnecessary.

Not true!

Take the case of the legislator's housekeeper in North Carolina whose sister rented a washer/dryer set and decided that the rental rate was too high. Word got back to the legislator who promptly went to work and introduced a bill to put rent-to-own dealers out of business in North Carolina. The bill passed the House with a vote of 110 to zero. APRO found out about the bill and raced to Raleigh to organize rent-to-own dealers in North Carolina in opposition to the bill. As a result of APRO's monitoring legislation as it is introduced, the dealers in North Carolina were able to modify the bill before passage in the Senate and they continue to do business in North Carolina today. The consequences of not being in touch would have proven to create a desperate situation for many businesses in North Carolina and would have set a dangerous precedent for future rent-to-own litigation. Dealers all over the country benefitted from the North Carolina decision.

By keeping its members informed on issues that might otherwise have crept right past them, APRO is able to stem the tide of such attacks. For example, do *you* know what bills were introduced today in your state legislature that might affect your business negatively? APRO knows every morning and we notify our members immediately of rulings that affect them directly or indirectly—positively or negatively.

This is what associations do for their members. The perception of the value of monitoring legal activity as a membership service depends on how legally sensitive an industry is. At any given moment there are easily 20 lawsuits against rent-to-own dealers around the country. It goes without saying that the rent-to-own business is extremely prone to criticism and legal flare-ups.

APRO's service to the individual rent-to-own dealer is interpreted in almost as many ways, perhaps, as there are APRO members. Each dealer has a unique set of concerns. APRO strives to address individual needs on an individual basis.

I guess my point is that what APRO is doing for the individual dealer may not always be clear. But we are there behind the scenes working to make sure others understand the rent-to-own business. APRO wants to change the lingering negative misconceptions into a positive understanding of the place of rent-to-own in today's economy, and to clearly define who the rental customer is and what purposes rent-to-own serves. We can do this only with your continued support.

APRO believes in rent-to-own. Help support the association that supports your industry by mailing in your dues check when called upon to do so.

Let's keep the momentum going.

Publisher/Editor-In-Chief

Elizabeth T. Johnston

Executive Editor

Edward L. Winn III

Managing Editor

Frances Knight

Contributors

Robbie Bratcher

J. Samuel Choate Jr.

Edward M. Gardner

Dick Hultine

Jim Lahm

Ken Nay

James D. Walker Jr.

Edward L. Winn III

Art Director

Elizabeth T. Johnston

Production Coordinator

Vickie Williamson

Mechanical Art

Nancy Yohe

Illustration

Mike Krone

Circulation Manager

Kayte Bean

Data Processing Manager

Marci Smith

Advertising Coordinator

Samantha Sipowicz

Editorial Advisory Board

Lew Allen

Alan M. Dobzinski

Barry Gambini

R.C. "Bud" Holladay

Lowry Shrader

Charles D. "Chuck" Sims

Norman Smith

Larry Tinney

Editorial and Advertising Offices

1866 InterFirst Tower

Austin, Texas 78701

(512) 478-6521

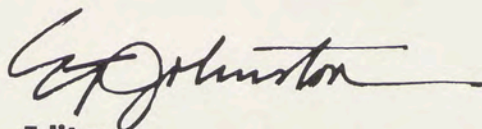
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Progressive Rentals



—Editor

Here's one way we specialize...

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No mistake about it. Rental financing demands professionals who really understand how the business works.

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professionals at BWAC. We've been providing innovative financial services to business for 30 years now — ranging from traditional inventory financing, or floor planning, to commercial leasing, insurance services, floor check programs and much more.

And our network of branch offices in the United States enables us to serve your market on a timely basis.

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in rental finance. You won't need to teach him — or her — the business.

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THE CHANGING MARKET

Two recent editorials from equipment rental publications, about which I have more to say elsewhere, have gotten me thinking about our industry from the leasing industry point of view. In these times of intense price competition, failing APUs, and lower margins for many dealers, I keep looking for some solution to the doldrums affecting the industry in different parts of the country. There are probably several, but when I look at our relatives in the equipment rental business, one clearly comes to mind. A chief difference between their business and ours is the size and variety of inventory. We tend to pride ourselves when we have few product lines and little stock in the back room. Historically, a good TV rental store had 5 percent idle inventory. Compared to an equipment rental dealer's inventory, that's next to nothing. He will have hundreds, if not thousands, of items in inventory waiting to be rented for an hour or a day.

Of course, it is cheaper to maintain low inventories, but it can also deter growth, a problem of late for a lot of rental companies. We may be reaching the day when it is hard to rent significantly more TVs profitably in many markets. They are becoming saturated with rental companies as well as customers with plenty of TVs. Some of you can remember what a radical move it seemed to be when the first TV rental store began carrying white goods. Many of you still are not ready to take the leap into furniture.

Granted, all of these changes take their toll on an organization. New products mean new training, new routines in the store, new credit arrangements, and new problems in securing lines of supply, managing and repair-

ing inventory, and collecting accounts. But the message seems clear. Innovate or die. One way to innovate is to experiment with new product lines. I like the idea from Universal TV Rentals out of Cincinnati. They call themselves "Universal Products for the Home." That means, in theory at least, that customers can rent anything that they use in their homes from Universal. Think of what that could do to a stagnant TV BOR.

I don't know what products customers can be persuaded to rent or what they will only buy or do without. I don't think any rental dealer has the answer to this question, yet. I know that some dealers have been successful renting bicycles in Florida and Texas. I am told that sewing machine rental did not work in a California market. I have been told that suntanning equipment has been rented successfully in at least one northern state during the winter months. I know that several equipment rental dealers are studying the home exercise market very carefully. Several companies are renting satellite dishes with some success.

Companies in our industry, like all others, either must grow or decline. There seems to be no real status quo in business. We can grow by expanding the customer base for the products we already offer, and we are all working hard to do that. We can also expand the products we offer the customers we have, and some of us are beginning to do that, as shown in the examples above.

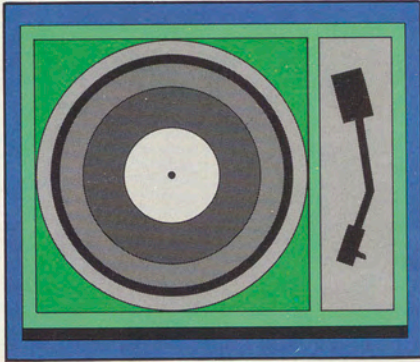
Of course, there will be some hits and misses in attempting to expand product lines. You will buy plaid sofas when stripes are in. You will buy bicycles the year it rains every day. But you will hit

every now and again and the result will be an increase in BOR. The numbers may change—the way you measure store size, the contract term, the rental rates, the APU—they all may change. But if you are careful and if you study your markets and look before you leap—don't buy a carload of barbells until you have rented ten or twenty sets successfully to begin with—you will grow.

The consuming public is being educated through our efforts, and the efforts of others, that people can rent anything they want. It is a convenient means to acquiring products and there is really no stigma attached to the proposition anymore.

What I want for the business is growth. I hope this message will provoke some thought about one way to do it.

EDWARD L. WINN III
APRO General Counsel



ON THE COVER: Audio continues to be a mainstay of rent-to-own. Nevertheless, there are few constants in the business world. Our cover story on page 8 relates current and future trends in sound equipment rentals, and our supplier listing on page 42 tells you where to find the products you need.

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8 1986 AUDIO RENTAL SURVEY

Audio rental is an ever-changing scene, or is it? Find out what dealers and suppliers say about the current market in our cover story on page 8.

18 TAX REFORM IS LAW OF THE LAND

On the road to simplification, tax reform has compromised itself into convoluted complications. Major changes and how they will affect your personal and business life are spelled out in this overview of the 1986 Congressional act.

26 WHAT DID HE SAY?

Editors of two publications serving other areas of the rental industry have written about APRO in the past few months. Their widely divergent views about competition and this association are presented in this point-counterpoint piece with an afterword by APRO's general counsel.

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The limit of liability for mistakes in Yellow Page ads may not be as limited as it once was. How recent court cases may affect future damage awards in this area is covered in this short feature.

34 BANKRUPTCY COURT STRIKES DOWN RENTAL PROGRAM

The case is unique; there is an interesting cast of characters. And, there are valuable lessons for every rent-to-own dealer in this fascinating look at a Tennessee bankruptcy case.

42 WHO'S WHO IN THE AUDIO INDUSTRY

With audio an essential ingredient in the rent-to-own mix, knowing who can supply what is of prime importance. Find the right supplier for your store in this up-to-date listing.

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COVER GRAPHICS BY:

Nancy Yohe

1986 Audio Rental Survey: Quality Not Quantity

Changing customer attitudes affect rental trends

Last year's APRO survey of audio suppliers saw an optimistic position for audio products in the rent-to-own mix. The average percentage of BOR (balance on rent) in 1985 was 18 percent and industry revenues surpassed \$300 million. The change in 1986 points to the same high margins on audio rentals, however, dealers have had to modify audio inventories to meet current customer demands as well as meet the challenge of electronics super stores' bargain pricing.

Low-end stereo systems typically rent in the range of \$29 to \$59 per month. Those same low-end models cost customers from \$90 to \$250 to purchase outright from retail discount houses. Many customers are opting to buy low-end systems instead of renting them due to the deep discounts offered by the large retail chains. Daniel Baldwin, a three-store rental dealer in Florida, says, "My stereo business is being robbed by low-cost discount houses that offer credit terms and layaway plans. VCR rentals are going in the same direction."

On the other hand, high-end stereo systems with options such as compact disc players, dual cassette decks, and separate components are still priced too high for most rental customers to buy at retail. Consequently, many dealers, like Baldwin, are letting low-end stereo systems go as they realize that high-end systems are a better investment for several reasons:

- High-end systems tend to stay out on rent longer than low-end models with average minimum rental terms averaging eight months.
- Twenty percent more customers go to term with high-end systems than with low-end systems due to the quality sound and durability.

AUDIO WILL ALWAYS BE A MAINSTAY FOR RENTAL DEALERS. HOWEVER, THE PERCENTAGE OF GROWTH IN THE PAST YEAR HAS CHANGED THE FOCUS OF THE MARKET.

- Profits are higher because the monthly price point is higher with monthly rental rates ranging from \$99 to \$130 and up.

- Traditionally, high-end models have fewer service problems and less down time than low-end systems.

- Warranties on high-end systems average five years versus two years or less on low-end systems.

Audio will always be a mainstay for rental dealers. However, the percentage of growth in the past year has changed the focus of the audio market. Trends in growth of audio rentals for the past year differ dramatically between the dealers sampled. Some dealers' audio rentals have dropped as much as 20 percent. Whereas, some stores' audio rentals have risen by as much as 50 percent. What are the reasons? Apparently, dealers with few stores, from one to five, have shown little growth or a decline in audio rentals. For dealers with 15 to 30 stores, rentals have been more steady or have increased. Larger stores, naturally, have the volume and capital to buy a larger number of expensive items, like high-end stereo systems and name brands. Some smaller stores try out brands with less consumer recognition. Those stores end up taking a chance with more potential service

problems. With the audio market becoming more competitive where consumer brand-awareness is high, going with an unrecognized name is a big chance to take.

One store in particular made that mistake and is paying for it now. The owner of 31 stores in the southeast picked up a brand suggested by its vendor as a convenient, low-end piece of merchandise. In one year the percentage of profits from the store dropped and BOR for audio declined dramatically from twelve percent to six percent. "It wasn't a name brand and I ended up with an incredible amount of service problems," the owner said. "It equaled more down time, I couldn't get parts, my customers were unhappy, and my store's reputation suffered." The owner now is piecing back together what's left of his audio merchandising effort.

Service problems have always topped the list of dealers' woes concerning the audio market. It seems the more things change, the more they stay the same. Despite new technological advances in the circuitry of audio systems, the same old service problems prevail. The audio market for rental dealers has always been a double-edged sword. Profits are strong, but with the profits comes an investment that requires maintenance. The upkeep translates into replacement needles, additional dust covers, new speaker covers and other assorted items.

Component systems are easing the tension of some of the service problems for some dealers. With more manufacturers offering component systems (separate turntables, separate receivers, separate compact disc players), the down time for systems is less. Previ-

continued on page 41

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Criminal Warrants, A Tar Baby

Enough is enough! I am as mad as h--- and I am not going to take it anymore! Another set has been pawned by a customer. Another set has been "stolen" in a bogus burglary. Another customer is hiding with our merchandise. Call the cops!

The temptation is powerful. It is a crime in almost every jurisdiction to dispose of rental property. Anyone who would do that is certainly a criminal in my book. The only good place for a criminal is the jail.

These are frustrating circumstances. The idea of criminal prosecution is certainly an attractive option. It does not require a lawyer. The filing fee for a warrant is usually considerably less than the filing fee for a civil repossession action. The impact on our customer is profound. The prosecution usually results in an offer from the customer to return the rental property in exchange for dismissal of the prosecution.

Despite its apparent attraction, the criminal process is hazardous and sometimes deadly to the rental dealer. Almost without exception, the rental dealer would be well advised to stay out of the criminal courts whenever possible. There are several reasons for that advice which are detailed here for careful consideration.

First of all, it is illegal to threaten criminal prosecution for the purpose of obtaining advantage in a civil matter. In plainer language, a dealer cannot threaten to take out a warrant if the customer does not agree to a surrender of the property.

If the other reasons detailed here are not sufficient to dissuade the rental dealer from taking out a warrant, he should at least be cautioned to take the position in the criminal case that he will not drop the warrant under any circumstances. If the Court in sentencing the criminal requires restitution of some kind, so much the better.

Despite the possibility of restitution,

IT SHOULD ALSO BE KNOWN THAT THE BEST WAY TO GET SUED IS TO BRING A CRIMINAL CASE.

there are other reasons that should discourage the taking of a criminal warrant. The criminal courts are quite crowded. There is a substantial backlog in most areas. This means to a complainant that there will be many hours spent in court sessions watching other cases being processed before the case of interest is heard.

Another problem with the criminal warrant is the outright difficulty in obtaining support from law enforcement officers and court personnel. There is a very strong feeling that the matter of the recovery of rental property should be handled in a civil proceeding such as a repossession action or a garnishment. Without the cooperation of these officials, our warrant may not even result in the arrest of the criminal. Even after that arrest, the prosecution of the warrant may never happen. These cases have a way of getting lost and quietly dismissed when we are not watching.

Another problem with criminal actions is that they hardly ever result in an outcome that makes us glad to have gotten involved in the first place. The truth is that judges are reluctant to send people to jail. Most sentences take the form of some type of probation or non-confinement alternative. We may do as much harm as we do good to our reputation among our customers when they see how lenient the Courts actually are in punishing offenders. There is no joy to a victim in a probated sentence.

It should also be known that the best way to get sued is to bring a criminal case. Courts provide appointed lawyers to defendants who have no money. Peo-

ple who have money can hire a lawyer. In either event, most lawyers consider that the best defense is a good offense, as the saying goes. If there is any legitimate defense to the criminal prosecution, a dealer can expect to receive a civil suit in return for abuse of process. Even if the civil suit is groundless, the dealer will be forced to retain the services of his lawyer and defend that civil action.

With respect to the trial of the criminal action, it should be noted that the complainant must produce witnesses to prove the case. Those witnesses are usually store employees, managers, and route managers who have had direct dealings with the customer. Unfortunately, there is some turnover in these positions. We lose our employees to other companies, other jobs and other cities. It can be a very uncomfortable position for a rental dealer to have a criminal case scheduled for trial where our only witness, a former employee, has disappeared.

None of our employees are permanent fixtures. Considering the time it takes to bring a criminal case to trial, the likelihood of the disappearance of our star witness at some point along the way is very large. If we have no witnesses we will not get a conviction. If we fail to get a conviction, we are left wide open to a civil suit based upon abuse of process.

There are difficult judgments to be made by the rental dealer as to this matter of criminal prosecution. No single answer will satisfy every situation. Still, for the reasons outlined above, if I had to make the rule, it would be "Don't Do It."

Editor's Note: LEGAL is a regularly featured column written by James D. Walker, Jr. of Surret, Walker, Creson & Colley, for rental dealers with legal questions. Please address questions for this column to James D. Walker, Jr., Surret, Walker, Creson & Colley, Box 1497, Augusta, GA 30903.

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GOVERNMENT RELATIONS

Late Fee Revisited

BY EDWARD L. WINN III

Rental dealers in many states regularly add late fees to their rental agreements to encourage customers to pay on time and to compensate the dealers for the time and trouble of dealing with delinquent accounts. Dealers have given different names to this practice. Late fees, reinstatement fees and deferred charges are some of the more common terms used. For the most part, the amount of the fee to be charged and the circumstances of its accrual are set forth in the rental agreement.

Because most rental agreements are renewable weekly or monthly, and there is no ongoing obligation on the part of the customer to continue making rental payments, the notion of late charges in rental agreements has been a legally sensitive issue. In order to maintain the integrity of a rental agreement as a rental agreement and not have it interpreted as a disguised credit sale, it is important that there be no obligation implied in the agreement. A weekly customer who paid last Friday has an obligation only to renew the agreement the following Friday or to return the merchandise on that date. A failure to do one of those two things is likely a breach of the agreement. A dealer can argue that neither a payment made and accepted on Saturday nor return of the property on that date is timely, and, if disclosed in advance, a late charge of some sort is appropriate. No case has ever been decided against a dealer solely on the ground that the late charges in a rental agreement were improper.

Nonetheless, the issue of the legality and therefore advisability of having late charges in rental agreements continues. In the Summer 1986 Volume of the *National Consumer Law Center Reports, Consumer Credit & Usury Edition*, there appeared an article entitled, "Finding Usury in Delinquency Charges." The article alerts consumer advocates and consumer attorneys to circumstances when late fees might be illegal.

The general rule is that late fees are not a part of interest payments because they are in the nature of a penalty designed to encourage prompt payment. As long as the late fee is voluntary and can be avoided by timely

OVER THE COURSE OF FOUR YEARS, PLAINTIFF HAD MADE RENTAL PAYMENTS AND LATE CHARGES TOTALLING MORE THAN \$8,000 AND STILL DID NOT OWN ANY MERCHANDISE.

payment, it does not fit within the definition of interest. In the rental market, the rule is certainly valid, because the consumer can always avoid the "penalty" of late charges by returning the merchandise. What that means is that rental dealers *can* charge late charges in their rental agreements.

Another justification for late fees cited by courts is that they compensate creditors for the expense of having to chase payments. State legislators have recognized this reason for having late charges and have legalized the practice, most often limiting the amount that can be charged. The most common formula is 5 percent of the payment missed or \$5, whichever is less.

Rental dealers need to be aware, however, that despite the common law rule and the legislative recognition and limitation on late fees in most states, a few courts have held that late fees do indeed constitute interest under certain circumstances.

For rental dealers in states which have passed rental-purchase legislation, late charges have been regulated by statute. As long as dealers in those states comply with the statutory limits, which vary considerably and are doubtless less than dealers would like for them to be, they should have no problems. Dealers elsewhere should have no problems as long as they are prudent in their assessment of late charges.

An example of a lack of prudence comes from another case filed in Texas before passage of the Texas Rental-Purchase Act. In that case, Plaintiff alleged that he had rented a TV and stereo from the defendant rental company under different contracts for approximately \$40 per week. Over the course of four years, Plaintiff had made rental payments and late charges totalling more than \$8,000 and still did not own any merchandise. Indeed, on the face

of one contract was a weekly rental rate of \$20, an optional daily rental rate of \$4, and a daily collection charge of another \$4 per day. On another contract was a weekly rental rate of \$21.60, an optional daily rate of \$9.50, and a daily collection charge of \$4. Plaintiff was suing under the Deceptive Trade Practices statute, the Usury statute, and for unconscionability. The case was settled before trial for an undisclosed amount.

In this writer's opinion, dealers can get into trouble on facts far less overreaching than these. Of particular concern are late charges that accrue daily. If the law will allow dealers to charge customers a penalty for not renewing a rental agreement or returning the property, it will also put limits on the amount of such penalty. A weekly customer who regularly pays several daily late charge fees plus rental payments covering the same time has a good case under the deceptive trade practices or unconscionability statutes in most states. It is far safer to have a flat fee late charge or reinstatement fee.

Dealers can in all states charge daily rental rates as opposed to daily late charges. They can, by contract, provide that a weekly or monthly contract automatically converts to a daily agreement at the daily rate if not renewed for another week or month. The danger here is that dealers will get two rental payments covering the same period of time—also likely a deceptive trade practice. If a Saturday customer does not come in until Wednesday and makes payments at the daily rental rate to get caught up, he is then a Wednesday customer, and a weekly payment will carry him to the following Wednesday, not the following Saturday. This can cause considerable card-shifting in the store, but will work.

Late charges have historically served as a reminder to rental customers to renew or return the merchandise on time. The money collected has helped dealers defray the costs of dealing with customers who cannot, or will not, abide by the terms of their rental agreements. A little caution on the part of dealers will allow them to continue the use of charging and collecting late fees as an important and necessary part of the rental business.

Edward L. Winn III is the general counsel of APRO and a frequent contributor to PROGRESSIVE RENTALS.

Washington Report

BY J. SAMUEL CHOATE, JR.

Although it now appears that the 99th Congress will adjourn without enacting the APRO-supported amendments to the Consumer Leasing Act, much progress toward this end was made during the session.

While the passage of this bill by both Houses of Congress was APRO's number one priority in 1986, there were other secondary objectives that were obtained this year. Realization of these objectives materially advances the possibility of the passage of this bill in the next Congress.

Of great concern to APRO was whether the Republican party would maintain its majority in the United States Senate after the November 1986 elections. As you know, the Republicans have a very slim majority of three votes in the Senate.

The Republican senators that were elected in 1980 with President Reagan are now up for reelection and every one of those seats, as well as those of other Republican senators, is being contested.

Most of these new Republican incumbents are in races that are so close that the outcome is impossible to predict and has been for some time. Therefore, it has been a prime objective of the APRO representatives in Washington to try to effect a compromise in the Senate with the Democrats before the break for November elections.

POLITICALLY, WE WERE
SWEPT ASIDE BY MUCH
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CONTROL.

The purpose of this strategy was to insure support in the Senate for the APRO legislation that would extend into the next Congress, regardless of the outcome in November.

I am happy to report that in August of 1986 a compromise was reached between the representatives of APRO and those staff persons responsible for these issues on the Democratic side of the Senate.

The compromise package was included in the Banking Committee's committee print as an amendment to S.2851 which was the industry-supported bill introduced by Senator Slade Gorton (R-WA).

Unfortunately, every item in the committee print, including our amendment

to the Consumer Leasing Act covering lease-purchase agreements, was deleted from Senator Garn's Banking Bill except certain provisions dealing with savings and loan associations.

Politically, we were swept aside by much larger issues over which we had no control. By virtue of our bill coming under the auspices of the Senate Banking Committee, we must compete for attention in that committee with issues such as non-bank banks, the ability of security dealers

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to engage in banking, and/or bankers to engage in the securities business as well as the regulation of insurance as it applies to banks and a host of other issues of great importance to the financial industries of this country.

Because of congressional politics on these other issues, our bill, which is a relatively noncontroversial matter in the Senate, cannot be voted upon and passed on to the House of Representatives for consideration unless we are included in a package that contains some of these issues. It is for this reason that our amendment to the Consumer Leasing Act was not passed by Congress this year.

However, since there is a consensus on our bill in the Senate, we no longer have to be as vitally concerned over the November elections as we have in the past. We can now begin to negotiate with the Democrats, who enjoy a majority in the House, because we have successfully gained the support and concurrence of the Senate Democrats on our bill.

APRO's representatives in Washington will be working through the election break with the Democratic members and their staff in the House to ascertain the possibility of getting their concurrence on the Senate compromise package. In the event an agreement is reached with the interested members of the House, it may be possible, although realistically not probable, that our bill could be passed. This, of course, assumes that a lame duck session will be held after the election in November. We are meeting with interested parties in the House to pursue this possibility.

We urge all members of the rental in-

IT IS IMPOSSIBLE TO OVER-
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dustry to assist in our effort by becoming involved in the legislative process and actively supporting candidates for the House of Representatives and the United States Senate. It has and will become necessary to solicit contacts from all of the rental industry members around the country to members of Congress. It is impossible to over-estimate your ability and influence as a constituent in this effort if you have made a financial contribution to your representative's reelection.

During the next six weeks, up to and through the elections, all candidates for Congress will be needing funds to assist them in their last-minute efforts to be elected. This is a critical time and those persons who help at this time will be remembered in the future by those members and be favorably received on issues of importance to them.

I urge you to actively involve yourself in this political process as a way of helping us in this all-important legislative undertaking.

J. Samuel Choate Jr. heads his own law firm in Washington, D.C., and promotes legislative action for the rental-purchase industry as a representative of APRO.

Have you made plans to renew your APRO membership?

Regular Membership

Up to \$500,000 annually	\$ 300
\$500,000 - \$1 million annually	\$ 600
\$1 million - \$2.5 million annually	\$ 900
\$2.5 million - \$5 million annually	\$1200
\$5 million - \$10 million annually	\$1800
\$10 million - \$20 million annually	\$2400
Over \$20 million annually	\$3000

Associate Membership

All Suppliers	\$ 300
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For more information, contact the
APRO office at (512) 478-6521



... Hard-Sell or Soft-Sell?

Advertising . . . is it glamorous? Mysterious? Potential business miracle maker? Is it an expense or investment? Should it be hard-sell? Soft-sell? Is it contrived best by creative, talented minds?

Yes, advertising for rent-to-own dealers can take many different roads in seeking profitable returns. Just what is the profession of advertising all about? It's the design and execution of excellent advertising communication to an accurate target audience that should create terrific results. By the same token, anything less than excellent ads and/or commercials can be more of an expense than a profitable investment. After all, the primary reason to advertise is to spark additional business. Otherwise, the same money would be better spent to open another store, send a store manager on a vacation trip, etc.

What is an excellent piece of advertising? Could it be basic communication created and developed effectively on the KISS (keep it simple, stupid) principle? If you've seen a Bartles & Jaymes commercial, you know the answer to that question.

Consider mood-setting in any kind of advertising. It's probably not only necessary to capture and hold the attention of the prospect, but also necessary to key in to the target audience. If the target is feeling unusually patriotic, a flag-waving commercial is going to get them into the mood of the ad message quickly. If the dealer's average prospect out there is serious, extremely cautious, humor oriented, fun-loving, care-free . . . then the ad message will be much more effective if it takes its cue from the current attitudes of people.

Which brings us to hard-sell advertising. It is, without a doubt, the oldest type of communicative approach. And it has moved millions of dollars of goods for American companies. Hard-sell can be successful in gaining many new accounts for rental dealers, but it's prob-

THE PRIMARY REASON TO ADVERTISE IS TO SPARK ADDITIONAL BUSINESS. OTHERWISE, THE MONEY WOULD BE BETTER SPENT TO OPEN ANOTHER STORE.

able that it doesn't do much for creating a lasting and credible image of a company name. Hard-sell can be effective because it's a definite means of immediate stimulation of prospects. On the other hand, this forceful style of communication (which usually requires overacting and overemphasis of the selling point involved) can possibly leave prospects with a negative reaction and result in lost accounts. If the hard-sell style is "hokey," it can oftentimes lead to the demise of a company over a period of years (although that is not evident at the outset).

Soft-sell advertising is the direct opposite of hard-sell. It is designed on a more diplomatic style of communication. The ancient adage of "you can attract more flies with honey than with vinegar" applies naturally to soft-sell advertising. On one hand, a creative soft-sell approach to advertising doesn't require the traditional USP (unique selling proposition) ingredient. Yet, soft-sell advertising can effectively produce highly successful results.

On the other hand, hard-sell advertising cannot survive without a USP. Emphatic selling claims are the guts of this type of advertising and necessary to achieve a reasonable return on the advertising dollars expended. Without an individual USP, this style of communication to the market simply becomes "noise" to prospects because all the competitors are making the identical "me-too" selling claims. The winner is always the dealer who has the biggest ad budget and "buys" the prospects

through repetitive saturation of the ad message.

A rental dealer should ponder carefully to determine whether his market will respond better to "noise" communication (which might be considered vinegar) or subtle communication (which might be considered honey). Determine the strongest style of sell and stick with it.

In summary, soft-sell, rather than hard-sell advertising, has been highly successful in recent years for many small, and sizable, companies. In fact, many small companies became sizable through this style of communication, as they achieved terrific sales results from their ads and commercials. A few that quickly come to mind are Wendy's, Bartles & Jaymes, Polaroid, Isuzu. A good example of soft-sell rental advertising that has proven to be successful is a syndicated TV commercial "Yuppie." In cities where newspapers conduct public surveys for the most liked and disliked local commercials, it's always hard-sell spots that are most disliked, while soft-sell are the overwhelming favorites.

One final word on which style of advertising to use. Suppose a rental dealer used the same offer that was included in a hard-sell commercial, but presented it in a softer manner. It just might produce much greater results than the hard-sell. And, at the same time, continue to keep current customers by higher image advertising.

Most rental dealers can easily prepare a newspaper ad or direct-mail piece with a local supplier. But when the need is for excellent advertising commercials, it's not so easy. Then is the time to consider turning to syndicated broadcast commercials or talented, experienced ad agencies for outside help.

Ken Nay is president of the Ken Nay Advertising Agency in Cincinnati, Ohio. Mr. Nay has been a speaker at recent APRO seminars and the 1984 convention.

WHICH ONE?

C A S S TYPE I

I want my home office to monitor all my stores.

I don't want any computers at my stores because my manual system is good and causing no problems. I would, however, like to track inventory, BOR, late and collections and accomplish inventory depreciation at my home office. I will have all paper work forwarded to my home office for processing.

The above requirement can be met with the **C A S S HOME OFFICE MANAGER™** which costs **\$9,000.00**

C A S S TYPE II

I have one or more stores and want a system at each.

I would like the store system to control my inventory, agreements, produce payment receipts, produce store reports concerning cash, collections, BOR, and inventory activity.

The above requirement can be met by the **C A S S STORE MANAGER™** which costs **\$4,000.00**

(Multiple store discounts available as well as unlimited use contracts.)

C A S S TYPE III

I want my stores' computers to transmit to my corporate office.

I want to have a minimum amount of corporate personnel and still know everything about my stores. I do not want to have corporate personnel inputting what has already been captured by the store computer. I want my corporate computer to produce inventory and store activity reports each morning that tell me how I am doing.

The above requirement can be met with the **C A S S ELECTRONIC CORPORATE OFFICE SYSTEM™** which costs **\$2,500.00**

C A S S TYPE IV

I would like to have a video/movie rental system.

I want it to calculate rent charges, produce invoices and store receipts.

The above requirement can be met with the **C A S S VIDEO MANAGER™** for only **\$900.00 per store**

(Multiple store discounts and unlimited use contracts are available.)

C A S S TYPE V

I would like to produce profit and loss statements for each store.

I want to know how each store is doing financially and how my corporation is doing financially.

The above requirement can be met by the **C A S S GENERAL LEDGER™** for only **\$1,200.00**

I want systems that will grow with me.

C A S S systems have the capacity to handle thousands of agreements and inventory. The hardware (which can be obtained from C A S S) can be expanded easily to meet increased business demands as they occur.

C A S S

I want training, follow-on support and a vendor who will stay in business.

The vendor should know the rent-to-own business and the business of computers, software and helping users.

C A S S Systems, Inc., has been in business for eight years. We design, develop and install computer software systems, and provide support to customers in the banking, retail and merchandise rental industries. The years of computer and information systems experience of our personnel range from 12 years to 27 years. For a demonstration or more information call or write:

C A S S SYSTEMS, INC.

**Park Place, Suite 126
17000 Dallas Parkway
Dallas, Texas 75248
(214) 931-5522**



Time Element Coverage

Only a small percentage of business firms carry any type of time element coverage. This is unfortunate because in many property loss situations the indirect loss (that is, the loss of not being able to operate the business) may be greater than the direct loss to the firm's building and personal property.

There are several reasons why so little time element coverage is sold.

- Many agents and insurance company personnel are not familiar with time element coverage.

- Time element coverage is difficult for policyholders to understand.

- Many insureds cannot visualize the possible time element loss they could incur.

There are three requirements for a business interruption loss:

1. The insured's building or personal property specified in the policy must be destroyed or damaged by a peril covered in the policy.

2. The insured must incur an interruption of business operations.

3. The insured must suffer a financial loss.

Requirements to Qualify

There are several types of consequential or time element coverages. Probably the two that a rental dealer should be interested in are loss of earnings and extra expense insurance.

Loss of earnings insurance is just that. It ensures against loss of earnings resulting directly from an interruption of business caused by whatever perils are listed in your particular policy.

For example, if fire destroyed your company building, that loss would be covered by your fire insurance policy. Granted, you would have income from rental agreements in effect at the time of the fire. Nevertheless, you would suf-

THE INDIRECT LOSS MAY BE GREATER THAN THE DIRECT LOSS TO THE FIRM'S BUILDING AND PERSONAL PROPERTY.

fer a certain loss of earnings before you could reopen for business, probably in some other temporary location. This type of insurance would cover at least part of that loss.

Some loss of earnings policies will cover such instances as interruption of business caused by earthquake. But don't assume that kind of coverage is in your policy. Be sure you know exactly what your insurance covers, exactly which premises are covered, what property is included in that coverage, and against what perils you are insured.

The loss of earnings coverage has a limitation on the amount of recovery during any 30-day period of suspension or interruption of business. Depending on how your policy is written, percentage of coverage could be 16 $\frac{2}{3}$, 25 or 33 $\frac{1}{3}$ percent. Therefore, the amount of insurance written should be at least six, four, or three times the monthly values depending on which percentage of limitation you choose to carry.

Extra expense coverage helps pay the cost of getting back into business. It insures the necessary extra expense incurred to continue as nearly as practicable the normal operation of your business.

Extra expense in this instance means the excess, if any, of the total cost incurred during the period of restoration over and above the total cost it would normally have taken to conduct the business during the same period had no

damage or destruction occurred. A point to note: Any salvage value of property obtained for temporary use during the restoration period, and which remains after normal operations resume, will be taken into consideration in the adjustment of your loss.

Here again, there are limitations of coverage. Standard percentages for extra expense insurance coverage are:

- 40 percent when the period of restoration is one month or less.

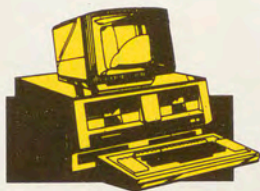
- 80 percent when the period of restoration is more than one month but not more than two months.

- 100 percent when the period of restoration is more than two months.

There is a vast difference between these two types of insurance coverage. Business interruption insurance will only reimburse the insured for expenses they incur to the extent that the business interruption loss is reduced. Extra expense insurance is needed when a firm must get back into operation regardless of what the cost is.

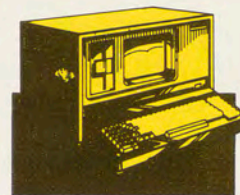
Robbie Bratcher is owner and president of The Insurance Mart based in Jackson, Mississippi.

ALL IN ONE



MULTI-STORE SERIALIZED SOFTWARE SYSTEM

- COMPLETE RENT TO OWN SYSTEM
- SALES & INVENTORY CONTROL
- COMPLETE MOVIE CLUB CONTROL



WHEN IT COMES TO SOFTWARE - getting the right one for your company will increase your productivity, reduce your overhead, and give you complete inventory control, plus control of every sale, every rental, that make buying decisions and controlling your movie rentals a snap.

WHEN YOU CHOOSE RSSS SOFTWARE, whether it is sales, rental, or movie club management, every transaction updates your inventory right up to the minute, so you will always have the latest information on rental and sales income and inventory, the gross profit on every sale, the income on each and every movie with bar code or without. You even get rent income, sales income, and gross margins, movie income for any hour, day, month or year for any period, compared to any other period in concise form, and that's anytime you want it. But most important, it gives you this information the way you want it, by model, serial number, sales person, store, description, book value, cost, average cost, floor plan agent, account number, YOU ask for it, YOU get it.

THE RSSS SYSTEM was designed in 1979 for single or multi-store appliance, TV, furniture and video dealers, for rent-to-own appliance, TV, and video dealers and video dealers that rent video tapes. The RSSS System has been in design, testing and used every day in 1 to 9 stores since 1979. At last count, there are nearly 150 stores that rely on the RSSS System to control their Colortyme, Curtis Mathes, and independent sales and rental stores coast to coast. There is one thing about Rental Sales Software Systems, it solves business problems in an innovative way to make smarter and more profitable business decisions. The RSSS package includes hardware, software license, initial training at your site, future updates, and continuing phone line support direct to your computer.

IT'S A GREAT FEELING when you are in control of your business. We sell systems every year to dealers who bought the wrong system the first time. For information on how we can help you the first time, call collect to Rental Sales Software Systems today.

RSSS
RENTALS & SALES SOFTWARE SYSTEMS

Les Feldser
President

457 Robert Drive • Corpus Christi, Texas 78412 • 512-851-8709

Tax Reform Act Is Law of the Land

Now that the dust has settled, did the taxpayer win or lose?

Congress has passed, and President Reagan has signed into law, the Tax Reform Act of 1986. In a recent meeting in Washington, Ways and Means Chairman Dan Rostenkowski stated, "It's a money driven bill, no doubt about it."

Although the business sector is the smallest area of GNP, corporate rates have been raised substantially. Investors and upper-income taxpayers have been given fewer incentives to invest. Many feel that this change in our tax structure is anti-growth. The bill does not provide adequate grandfathering of prior tax law, and without needed transition rules, there are unfavorable incentives for investments. The effect could be an increase in defaults affecting savings and commercial banking institutions.

There is already considerable discussion on presenting another bill in 1987 to correct the errors of the current bill. When our president started his tax program several years ago, he encouraged the predictability and certainty of investments in the private sector. With the passage of this bill, most investors will be unwilling to make any long-term decisions in the future because of the uncertainty.

This tax reform repeals the investment tax credit, loss of bad debt reserves, eliminates preferential treatment of capital gains, and lengthens the depreciable life of several assets. Instead of creating a bill with simplicity and fairness, we have created one of the most complicated tax acts ever passed. Detailed recordkeeping will be needed for transition rules.

Following is a brief synopsis of the changes incurred under the new law. (See the shaded box on facing page for individual tax rates.)

A CHILD WHO IS ALLOWED AS A DEPENDENT ON ANOTHER TAXPAYER'S RETURN, WILL NOT BE ALLOWED AN EXEMPTION.

Standard Deductions—The new law will replace the zero bracket amount where an individual currently is allowed (whether they itemize or not) \$2,480 if single and \$3,670 if married filing jointly. The changes now provide for a standard deduction of \$2,540 if single or head of household, and \$3,760 if married filing jointly in 1987. Deductions will rise in 1988 to \$3,000 for single, \$4,400 for head of household, and \$5,000 for married filing jointly. In 1989, these amounts will be adjusted for inflation.

Personal Exemptions—In 1986, the deduction is \$1,080 for yourself, spouse, and each dependent. The deduction will rise to \$1,900 in 1987, \$1,950 in 1988, \$2,000 in 1989, adjusted for inflation in 1990. Starting in 1988, if you claim a dependent who is over four years old, you must include the dependent's Social Security number on your return. Also in 1988, the new law phases out all exemptions on a return when taxable income reaches \$89,560 for single, \$123,790 for head of household, \$149,250 for married filing jointly, and \$113,300 for married filing separate. For every \$10,920 of additional income, the personal exemption will be phased out per exemption in 1988 and \$11,200 in 1989.

The new law no longer allows a personal exemption for age 65 or older or blind. Instead, an additional standard

deduction of \$750 is allowed for single or unmarried taxpayer, and \$600 for a married taxpayer.

A child who is allowed as a dependent on another taxpayer's return (parent), will not be allowed an exemption. A dependent may use up to \$500 of his or her standard deduction to offset their earned income.

Two-Wage-Earner Deduction—Repealed beginning in 1987.

Income Averaging—Repealed beginning in 1987.

Dividend Exclusion—Repealed the \$100 (\$200) dividend exclusion on your dividend income effective 1987.

Earned Income Credit—Beginning in 1987 increased from 11 percent to 14 percent on first \$5,714 (old rule was 11% on \$5,400). The maximum credit has increased from \$550 to \$800. The credit is phased out from \$9,000–\$17,000 (beginning in 1988).

Moving Expense—In 1987, the deduction will only be taken by individuals who itemize their deductions. This will be a miscellaneous itemized deduction not subject to 2 percent limitation.

Itemized Deductions

State and Local Income Tax, Real Estate Tax, Personal Property Tax—Retained.

State and Local Sales Tax—This deduction has been repealed in 1987. You may want to buy that new car in 1986.

Charitable Contributions—Non-itemizers' deductions are terminated after 1986. In 1987, untaxed portion of a donation of appreciated property is considered a tax preference item for purposes of the alternative minimum tax.

Medical Expenses—The deduction floor is being increased from 5 percent to 7.5 percent of adjusted gross income starting in 1987.

Interest Expense—Personal interest on consumer debt (auto loan, credit card, tax underpayments) is no longer deductible, regardless of when the debt was incurred, starting in 1987. Investment interest is limited to the amount of investment income (the definition of this term has been broadened). These limitations will be phased in over four years by disallowing: 35 percent in 1987; 60 percent in 1988; 80 percent in 1989; 90 percent in 1990, and 100 percent disallowed in 1991. Interest on your personal residence and second home is fully deductible. If your mortgage exceeds the cost of the home plus any improvements, there will be certain transitional limitations that will apply.

Miscellaneous Itemized Deductions—IRA and Keogh management fee, professional dues, job hunting expenses, safety deposit box, investment expenses, office at home, fees paid to tax return preparer and all business expenses (including those that were claimed before on Form 2106—business travel and entertainment) will be deductible starting in 1987 only to the extent the total exceeds 2 percent of the taxpayer's adjusted gross income.

Capital Gains—Beginning in 1987, there no longer will be a distinction

PERSONAL INTEREST ON CONSUMER DEBT IS NO LONGER DEDUCTIBLE, REGARDLESS OF WHEN THE DEBT WAS INCURRED.

between capital gains and losses and ordinary income and deductions. The maximum rate on long-term capital gains in 1986 of 20 percent will now, due to the change, cause a maximum rate of 28 percent on capital gains, a 40 percent increase in tax on capital gains. Consider taking that profit in 1986. Also in 1987, both short-term and long-term capital losses will offset ordinary income, dollar-for-dollar. For corporations, the new law eliminates the preferential capital gains treatment starting January 1, 1987. The top rate now is 34 percent.

Individual Retirement Arrangements (IRAs)—Beginning in 1987, if you are in a company-funded retirement plan, you may no longer be able to deduct your IRA contributions. Your contribution will be phased out between \$40,000

Individual Income Tax Provision

TAX RATES	MARRIED, FILING JOINT RETURNS	HEAD OF HOUSEHOLD	SINGLE
1987			
11%	0-\$3,000	0-\$2,500	0-\$1,800
15%	3,000-28,000	2,500-23,000	1,800-16,800
28%	28,000-45,000	23,000-38,000	16,800-27,000
35%	45,000-90,000	38,000-80,000	27,000-54,000
38.5%	ABOVE 90,000	ABOVE 80,000	ABOVE 54,000
1988			
15%	UNDER 29,750	UNDER 23,900	UNDER 17,850
28%	OVER 29,750	OVER 23,900	OVER 17,850
The 15% bracket will be phased out by assessing a surtax of 5% on taxable income between the following brackets:			
	71,900-149,250	61,650-123,790	35,950-113,300
When individuals reach the top level, they will be paying a flat 28%.			
1989	The brackets will be adjusted for inflation.		

and \$50,000 if you are married, and \$25,000 and \$35,000 if you are single. Once you are above these levels, you cannot take a deduction for your IRA. You can still make the contribution, but it will not be deductible. The interest will be tax deferred until withdrawal. The principal will not be taxed when taken out. A company-funded retirement plan will include Keogh plan, 401(k), corporate pension and profit-sharing plan. The tax penalty on premature withdrawals from an IRA has been increased from 10 percent to 15 percent.

Political Contributions Credit—Repealed after 1986.

Casualty Loss Deduction—Beginning in 1987, you can take a deduction only if an insurance claim was filed and the loss was not covered by insurance, or if there was no insurance coverage at all.

401(K) Plans—1987 reduces the present maximum contribution from \$30,000 to \$7,000. You might want to maximize your contribution in 1986.

Lump Sum Distributions—The ten-year averaging method is being replaced by a five-year averaging method. If you were age 50 on January 1, 1986, you can elect which method

you use. If you receive a contribution over \$112,500 beginning in 1987, there is a 10 percent penalty. Careful review of timing of an elective lump sum distribution is imperative.

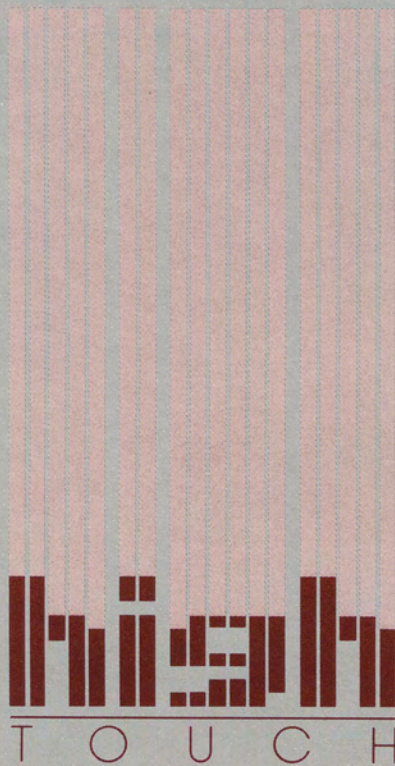
Tax Shelter Crackdown—New definitions have been created by the tax bill. You are no longer able to use a loss from "passive activity" to reduce or shelter your "active income" or "portfolio income."

Passive activity is an activity from a trade or business in which the taxpayer does not materially participate. Examples are limited partnerships, S corporations, trusts, and rental activity. The law specifically excludes working interest in an oil and gas property in which the taxpayer's form of ownership does not limit his liability from being classified as a passive activity.

Active income is your salary, bonuses, etc. Portfolio income is dividends, interest, annuities, or royalties not derived in the ordinary course of a trade or business, less any expenses clearly and directly allocable to such gross income. Portfolio income also includes any gain or loss on the disposition of property held for investment, or property which produces interest, dividends, etc. In-

continued on page 22

WE DON'T MEET THE STANDARD,



The leader in computer-based automation
and support for the Rent-to-Own industry.

High Touch, Inc. / 1900 N. Amidon, Suite 200 / Wichita, Kansas 67203 / 316-832-1611

WE SET IT.



RMK

DATA MANAGEMENT SYSTEMS, INC. T.M.

6360 E Thomas Suite 234, Scottsdale, AZ (602) 941-1723

STAR DEALER™

SYSTEM FOR TV & APPLIANCE RENTAL DESIGNED FOR THE RENTAL INDUSTRY BY A TV & APPLIANCE RENTAL COMPANY

FINALLY, a RENT-TO-OWN computer software system made available at a reasonable price!

The **STAR DEALER** system can now be installed by using one of these affordable payment plans:

STORE SOFTWARE LEASING:

Lease the software for as little as \$125 per month plus tax per store. (12 month renewable lease)

MONTHLY SOFTWARE MAINTENANCE:

1st store = \$50.00
All others = \$15.00

STORE SOFTWARE PURCHASE:

1 to 5 stores = \$3,700.00 per store
6 to 10 stores = \$3,300.00 per store
Over 10 stores = \$2,970.00 per store

HOME OFFICE SOFTWARE:

Home Office System (includes communication)	\$2,200.00
Financial Systems	\$ 650.00 per module
Word processing	\$ 150.00
Maintenance	No Charge

TURN KEY SYSTEM

(Complete system including hardware, software & training)

IBM PC/XT

1 store	= \$9,700.00
2 to 5 stores	= \$8,500.00 per store
6 to 10 stores	= \$7,600.00 per store
Over 10 stores	= \$6,800.00 per store

IBM COMPATIBLE

1 store	= \$8,100.00
2 to 5 stores	= \$6,900.00 per store
6 to 10 stores	= \$6,000.00 per store
Over 10 stores	= \$5,200.00 per store

THERE'S MORE IN STORE FOR YOU AT ONE LOW PRICE . . .

- IBM hardware — unsurpassed for support and service
- Rent to Rent and Rent to Own Contracts
- Daily, weekly, semi-monthly and monthly pay periods
- Multi-unit capability — up to 14 pieces of inventory may be rented on a single agreement
- Product categories are set to the dealer's specifications
- Compatible to Borg-Warner audit procedures
- Customer delinquency control
- Inventory control
- Internal cash control
- Complete on-line payment history plus backup ledger card for each customer
- Fully integrated general accounting
- Multi-store capability complete with communications
- Two levels of security
- Customer profile analysis
- Rental agreement/sales invoice/payment receipt automatically printed
- Up to 9,999 active customer and 9,999 inventory records per store
- Extensive management information automatically reported daily to your home office
- Built in auto-backup procedure
- STAR DEALER is composed of compiled programs NOT written in a data base language. Therefore, the system will NOT "slow down" as you add customers

STAR DEALER system for TV & appliance software
is available for IBM PC/DOS PC XT/AT or MSDOS compatible hardware

IBM is a trademark of International Business Machines Corp.

continued from page 19

come attributable to the investment of working capital shall be treated as portfolio income.

You are only allowed to take as a loss on your tax return the tax shelter loss against other tax shelter income. If you have a loss in excess of income, your loss is carried over to offset tax shelter income in future years. If by the time you sell the investment all the loss is not utilized, the excess is offset against your otherwise taxable gain on the sale. Since this is a drastic change, the tax reform act allows a five-year phase-in period. You are allowed to write off tax shelter losses against non-tax shelter income as follows: 65 percent in 1987, 40 percent in 1988, 20 percent in 1989, 10 percent in 1990, and none in 1991.

Rental Real Estate Activity—Special rules are enacted effective in 1987 for rental property you take active participation in. You are allowed to take a loss (or equivalent credit) up to \$25,000 against non-passive income on your tax return if your adjusted gross income is under \$100,000. This deduction is phased out between \$100,000 and \$150,000 of adjusted gross income.

Like other areas limiting losses, this

THE EFFECT COULD BE AN INCREASE IN DEFAULTS AFFECTING SAVINGS AND COMMERCIAL BANKING INSTITUTIONS.

area will also be subject to a phase-in period. Losses will be disallowed as follows: 35 percent in 1987, 60 percent in 1988, 80 percent in 1989, 90 percent in 1990, and 100 percent in 1991.

Tax Years For S Corporations and Personal Service Corporations—After 1986, the tax year for all partnerships, S corporations, and personal service corporations must be the same as the owners' tax year. However, there can be a difference if you can establish a business purpose.

With the resulting change in tax year ends, companies may have two tax years ending in 1987. Careful review and elections need to be made for 1987. Without an election, net income or loss from the short year is included currently in its entirety. Otherwise, an election can be made to take any resulting excess of income over expense into income ratably over the first four tax years.

Unemployment Compensation—

INSTEAD OF CREATING A BILL WITH SIMPLICITY AND FAIRNESS, WE HAVE CREATED ONE OF THE MOST COMPLICATED TAX ACTS EVER PASSED.

Fully taxable after 1986.

Travel and Entertainment Expenses—This area has drastic changes that will affect your methods of doing business and the deduction on your business books and personal return. The reform act specifically separates business from entertainment expenses. The reform act specifies that a business meal is only deductible if it is "directly related" or "associated with" the active conduct of a taxpayer's trade or business. You now must talk business either at the table or have the meal before or after a substantial and bona fide business discussion. A "quiet business meal" is no longer deductible.

Directly related now must meet four conditions:

1. You must have the general expectation of deriving income or a specific business benefit from the meal or entertainment.
2. You must have engaged in business discussion during or after the meal or entertainment.
3. The principal nature of the expense was for the active conduct of your trade or business.
4. The meal or entertainment expense was for your business guest or guests, and their spouses.

Associated with means that the event was either directly preceding or following a substantial and bona fide business-related discussion. If you have a business guest who is from out of town, the meal or entertainment can take place the day before or after the business discussion.

There are new limits on business meals and entertainment. You now will only be able to deduct 80 percent of the cost that is not considered extravagant. This applies to both meals away from home overnight on business and local. This 80 percent limit also applies to taxes and tips related to the meal or entertainment, nightclub cover charges, room rental for cocktail party, and parking at the theater or sports arena. Out-of-town travel meals qualify as business meals only if the taxpayer eats alone, or eats with non-business-connected persons and claims a deduction for his

meal only. What the law is saying is that if you are out of town, you can deduct 80 percent of your meal if you eat alone. If you take a client or business associate to the meal, you will get to deduct *none* of the cost of your meal or your client's meal. The government's reasoning is that this is not directly related or associated with your trade or business.

For those companies that wish to set up per-diem arrangements, you may reimburse your employees for away from home travel at fixed per-diem rates (currently not to exceed \$75 a day). There is a probability that the employer will continue to deduct 100 percent of its reimbursement. These expenses will be considered to be accounted for if your employee 1) records the time, place, and business purpose of their expenses, and 2) provides the information to the employer. No mention is made of requiring that an actual record of travel, lodging, or meals be kept. I recommend, however, that the employer should make that a requirement. If you are more than a 10 percent owner, you *must* keep complete records.

If you pay for the expenses personally, these entertainment expenses will now have to be taken as an itemized deduction on your tax return. They are subject to a limitation as other miscellaneous deductions of 2 percent of adjusted gross income. To give an example, let's assume John Taxpayer incurs \$2,000 of business entertainment expenses of which \$100 is considered extravagant and has adjusted gross income of \$75,000. Other miscellaneous deductions total \$600. The limitations are as follows:

Total business entertainment	\$2,000
Less amt. deemed extravagant	-100
subtotal	1,900
Less 20% reduction	-380
subtotal	1,520
Misc. other deductions	600
subtotal	2,120
Less 2% of adj. gross income	-1,500
Deductible amount	620

Skybox rentals for sporting events will be phased out over a three-year period as a deduction and qualified banquet meetings will be deleted after 1988. Banquet meetings will still be a full deduction in 1987 and 1988 if the meal is provided as an integral part of a qualified banquet meeting. A qualified banquet meeting is a convention, seminar, annual meeting, or similar business program that includes a meal. There is a three-part test for banquet meetings: 1) more than 50 percent attending are from out of town; 2) at least 40 individ-

uals are attending the banquet meeting; and 3) the meal is part of the banquet meeting and includes a speaker.

Tickets to events are also limited to 80 percent of their face value, which includes tax. You can't deduct the higher fee of a scalper or legitimate ticket agency.

Depreciation—This area has been drastically overhauled to assist in pay-

WITH THE PASSAGE OF THIS BILL, MOST INVESTORS WILL BE UNWILLING TO MAKE ANY LONG-TERM DECISIONS IN THE FUTURE BECAUSE OF THE UNCERTAINTY.

ing for the reduction in personal income tax rates. It has added two new classes of depreciation, 7- and 20-year property. Used and new property no longer will have a distinction for property placed in service after December 31, 1986.

Cars and light trucks will now be considered five-year instead of three-year property. Office equipment will now be considered seven-year instead of five-year property.

Real estate has been hit hard. Currently, the depreciable life is 19 years and under the new law, residential property will now have a 27½-year life and nonresidential (commercial) will have a 31½-year life. The special expensing provision of Section 179 has been increased from \$5,000 to \$10,000 for 1987. This will be phased out when the capital investment during any year exceeds \$200,000.

The depreciation method for 3, 5, 7, and 10-year property is now the 200 percent declining balance method, which will switch to straight line to maximize the deduction when straight line is optimal. For 15- and 20-year property, the method is 150 percent declining balance, with a switch to straight line to maximize the deduction.

The new provisions will now allow a taxpayer a half year of depreciation for the year of disposition or sale. Old rules gave no recovery deduction in the year of an asset's disposition or sale. Taxpayers may elect to recover the cost of assets placed in service after July 31, 1986, and before January 1, 1987, using the new rules of depreciation.

Currently, automobiles placed in service after April 2, 1985, may be depreciated over a three-year period.

The maximum cost to be depreciated over this period was \$12,800; \$3,200 in the first year, \$4,800 in second and third (25% in year 1, 38% in year 2, and 37% in year 3). The new law sets the same maximum cap, but depreciates the automobile over five years (year 1—\$2,560 [20%], year 2—\$4,100 [32%], year 3—\$2,450 [19.20%], years 4 and 5—\$1,475 [11.52%], and year 6—\$1,475 [5.76%]). If the cost of the car is in excess of \$12,800, you cannot exceed \$1,475 in depreciation per year after year 6.

Family Tax Savings Strategies—This area has been hard hit since, under prior law, a child could earn up to \$1,080 in passive income and incur no tax. The new law states that investment income received by a child under the age of 14 is generally taxed to the child at the parent's top bracket. It doesn't matter if the source of income came from someone other than the parent. This is effective after 1986, even if the cash or property that was transferred was given to the child before 1987. The minor can offset the income up to \$1,000, up to \$500 of their standard deduction to offset unearned income and use their own tax rate on another \$500 of investment income.

Corporate Tax Rates—Effective July 1, 1987:

Taxable Income	Tax Rate
Not over \$50,000	15%
Over \$50,000 but less than \$75,000	25%
Over \$75,000	34%

Note: On corporate income over \$100,000, an additional 5 percent tax is imposed, but can't exceed \$11,750. Once a corporation reaches \$335,000 in taxable income, they pay a flat tax of 34 percent.

Corporate Dividends—Reduced from 85 percent to 80 percent after December 31, 1986.

Alternative Minimum Tax for Corporations—Effective for 1987, this tax is similar to that for individuals. Several items will need to be added back as tax preference items. Once the taxable income is over \$40,000, the tax will be 20 percent. However, this \$40,000 of exempt income will be reduced by 25 percent for taxable income between \$40,000 and \$150,000. The corporation will pay the higher of the regular tax or the alternative minimum tax.

Cash Method To Accrual Method—If your annual sales are over \$5 million for the last three years, you may have to change your method of accounting for tax purposes. You will need to review this area in depth.

Investment Tax Credit—Repealed effective January 1, 1986. Effective for years on or after July 1, 1987, investment credits carried forward are reduced by 35 percent. For calendar year taxpayers, in 1987 the reduction is 17.5 percent.

Legal and Educational Assistance Programs—Still tax exempt through 1987. Educational assistance programs have been increased to \$5,250 annually.

Pension Plans—Current plans may

THE BILL DOES NOT PROVIDE ADEQUATE GRANDFATHERING OF PRIOR TAX LAW, AND WITHOUT NEEDED TRANSITION RULES, THERE ARE UNFAVORABLE INCENTIVES FOR INVESTMENTS.

have to be rewritten since the new rules now require a faster period of vesting. You now must have an employee fully vested within five years of service. New nondiscrimination rules have been enacted. Your plan needs to be reviewed to determine whether it should be rewritten.

Life Insurance—For the most part few changes occurred in this area. However, the \$1,000 of tax-free interest a spouse could receive annually if they took an installment payout of life insurance proceeds has been repealed. Also, the new law places a ceiling on the interest an employer can deduct when borrowing against a life insurance policy purchased on the life of an employee. Effective on insurance contracts purchased after June 20, 1986, the interest may only be deducted on the first \$50,000 of borrowing. Interest incurred to buy or carry single-premium life insurance is no longer deductible.

Liquidations Plan Now—For liquidations completed after 1986, all property distributed in a complete liquidation will now be deemed to be sold by the corporation at its fair market value. Now under the new law the corporation will be taxed on the appreciation of the property.

Estimated Tax Payments—Effective for the years after December 31, 1986, you will now have to pay in 90 percent instead of 80 percent of the current year tax to avoid penalty. The rule for paying in at least as much as last year's tax, exception 1, is still in effect.

continued on page 43

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FROM SEA TO SHINING SEA, GIVE YOUR RENTAL CUSTOMERS



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I D E O

AMERICA'S FAVORITE NAME IN VIDEO EQUIPMENT: RCA.

If you settle for less than RCA, that's exactly what you'll get. Less variety. Less service to back up product. Fewer choices in price points. No other manufacturer can give you the range of products and services that RCA can.

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More consumers purchase RCA televisions and VCRs and solid state cameras than any other brand. Which makes it the brand they'll be looking for in your store.

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Everywhere you look in the RCA product line, you'll find the latest features available, and the most extensive range of products and prices in the industry. RCA can give you the latest in television technology, with the latest in screen sizes and performance. RCA has 14 different fully-featured VCRs; the most innovative, lightweight easy-to-use cameras and camcorders in the industry, as well as a full line of sophisticated audio component systems.

RCA's best rental features don't come in a box.

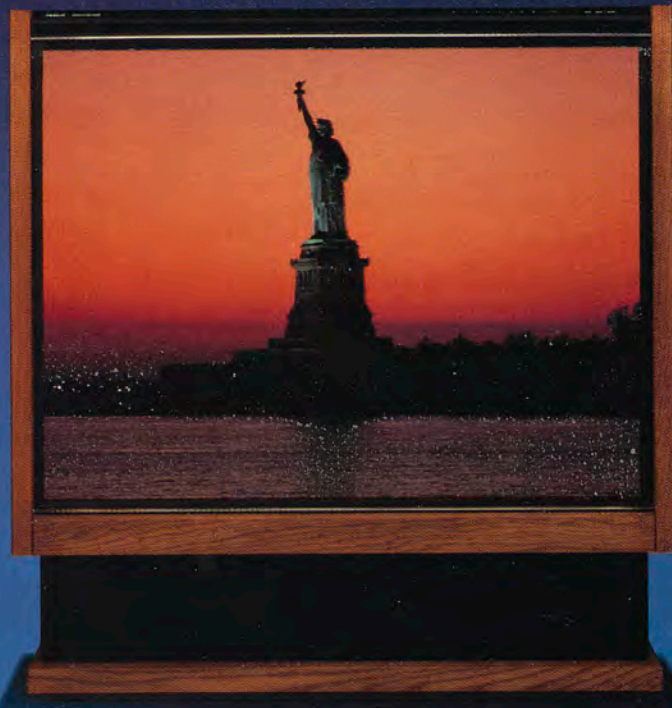
Every RCA product is backed by the largest service network in the industry. But that's only half of it. RCA's distribution network makes getting your hands on our products smooth and convenient. The tradition of RCA service goes further, with rental programs that put our know-how to work for you. All you have to do is send back the attached postcard, or contact Tim Shannon at RCA Consumer Electronics, P.O. Box 11009, Indianapolis, IN 46201.

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Simulated TV picture.

T A L S

What Did He Say?

APRO criticized for regressive attitude

Sticks and stones may break my bones, but words can never harm me. Maybe that's true, but the words others use to and about one can be very interesting. Particularly so when the writers of those words start with the same situation and arrive at different conclusions.

Reprinted here, with permission, are editorial comments from Newton Berry, editor of Rental Product News, and Tim Novoselski, editor/publisher of Rental Equipment Register. Novoselski granted reprint permission with the proviso that we quote him as follows: "This is one isolated incident. I have the utmost respect for APRO. I have watched it from the beginning and have always thought it was a professional organization and I still think that."

Both of the editorials are printed here in the shaded boxes beginning on this page. Novoselski's editorial from the August issue of RER is first, followed immediately thereafter by Berry's article, which appeared in the September issue of RPN. Both publications serve the equipment rental industry.

Beginning in the far right column on page 27 is an afterword from Edward L. Winn, APRO's general counsel.

From Rental Equipment Register (August 1986)

We've been keeping an eye on the Association of Progressive Rental Organizations—the rent-to-own group—for about five years or so, and have always thought the members to be reflective of what they call themselves; they were progressive. But now, if the comments that we heard at their convention last month are any indication, they might be better off renaming their association as one of Regressive Rental Organizations.

It seems that the APRO people think they might have done too good a job. They believe because of their efforts, they have helped create more competition for themselves. Ed Winn, APRO general counsel, said, "The rent-to-own business used to be the best kept secret in town, but lately, the number of rent-to-own businesses has been growing faster than the industry itself."

In other words, APRO doesn't like increased competition, and the membership has directed its board to be less helpful. "We probably won't be as visible as in the past," said Winn. "We will cut back on our publicity and limit the information we pass along to outsiders."

This is too bad. In most cases, a large, strong association makes for a healthier industry. Unfortunately, competition does not go away if you simply ignore it. You are better off getting them on your side. You know, the old "strength in numbers" slogan. It's true.

I just hope our industry thinks long and hard before it would ever consider anything like this while in an emotional frame of mind. Because in our industry, you can believe there will be more competition in the next few years—lots of it.

Tim Novoselski, Publisher, Rental Equipment Register

From Rental Product News (September 1986)

A recent editorial in a competitor publication suggested the Association of Progressive Rental Organizations should be renamed "Regressive Rental Organizations." It criticized the rent-to-own association for adopting a code of silence about its industry and seemingly for not courting more competition. The editorial also expressed the hope that rental operators in our industry should never become so "regressive."

The editorial raised several questions that bear further exploration:

- *Is increased competition something rental operators should want more of?*
- *Did the APRO official quoted really say what the editorial attributes to him?*
- *Is this rental association "regressive" as charged?*
- *What actually was at issue at the '86 APRO convention?*

Who Wants More Competition?

Being in the magazine business myself, I can see a certain sense to our fellow publisher's desire for more competition in the rental industry—i.e., more competition for you rental operators could mean more subscribers for our magazines. Still, I find it a hard concept to sell to today's rental operators. You guys just don't seem to be very quick at grasping the advantages of extra competition.

Maybe it will help if we look at the rental situation in England. In some respects, the "plant-hire" climate there borders on the ideal. The rental idea, dating back to 1866 in the U.K., has now gained virtually universal acceptance by British homeowners. The typical Englishman almost always rents equipment needed

AFTERWORD

You have just read editorial ruminations from two major equipment rental publications about APRO and members of the rent-to-own industry. The short piece from *RER* calls APRO "regressive" and is essentially unflattering. The *RPN* piece is longer, more thoughtful, and decidedly more complimentary of the association and the industry we represent. Neither piece really plows any new ground, although the *RPN* article makes some telling points about competition.

APRO's role in the scheme of things has been debated since the association began. The "founding forty" companies were eager to have an organized group, but didn't agree then any more than now what it was exactly that they were supposed to do as a group. Many were at the time the fiercest of competitors if not bitter enemies, and, as you might imagine, that climate has not changed for the better.

There was a lot more concern then about legal issues facing the industry as a whole than there has been lately. The consensus in 1980 was that the industry needed a safe legal environment in which to do business. The situation was viewed as threatening, and an immediate organized legal and legislative effort was thought to be better than the efforts of individual companies.

Another concern that surfaced early was the way some dealers ran their businesses. The "bad apple" story is an old one. Some dealers, though by no means all, thought the association could show dealers a more reputable and more professional—progressive, if you will—way to run this business, and thereby improve the image of the industry as a whole. In response to that concern, we employees of APRO and a handful of dedicated and self-sacrificing rental dealers dutifully put on seminars, wrote articles, and talked many hours with industry members about how to run this business better.

From day one, there were thoughtful rental dealers who felt strongly that APRO had no business doing those kinds of things, and they made no secret of their feelings. They argued that McDonald's and Wendy's don't put on seminars for one another about how to make hamburgers better. The counter argument was and is that nobody is making hamburgers so badly that people are trying to make the hamburger business illegal.

I have said before that the rental-purchase business is an easy one to get

to do home repairs, for instance, instead of buying it. Contrast that to the United States, where two out of three Americans don't even know that they have a rental option. What wouldn't the ARA, CRA, TRA or other American rental organizations give to achieve the kind of widespread public acceptance of the rental concept that our English counterparts enjoy?

Contractor business also abounds in the U.K. Since you customarily rent an operator with the machine, it is quite easy and relatively inexpensive to get into the construction business in the United Kingdom. And quite a lot of people do.

Unfortunately, though, there is a snake in this Eden. Because it is also relatively easy to get into equipment rentals in the U.K., seemingly almost everyone has done that, too. As a result, competition has become extremely intense, and no hire centers, as they're called, can afford to charge a high enough rental rate—or price on equipment sales—to make the business very profitable. Rental owners can make a living in Great Britain, but nothing like what we enjoy in the States and Canada. As Norman Allen, director of The Construction Plant-hire Association in England, confided to me, the typical rental outfit there only realizes annual revenues of about \$150,000 (U.S. dollars).

The truism that competition is healthy has some validity, of course—chiefly for your customers. Keen competition tends to keep prices down and service standards up. It also motivates rental stores to look for more efficient ways of doing business, for better equipment and more skillful employees. In that sense, competition serves a valuable purpose. Still, it has yet to be proved to me that anyone has an obligation to go about dispensing trade secrets in order to attract more competition to his industry—or that there's anything especially progressive about doing so. As the little boy said, "I know spinach is s'posed to be good for you, but do I got to have so much of it?"

Admittedly, we're stuck with competition whether we like it or not. So we may just as well be realists, accept it and find ways to deal with it. One way is to become better educated in effective business methods in order to compete better. . . .

Associations can help, too. As you can see on page 12, CRA '86 offers an ample menu of worthwhile seminars. The recent ARA Mid-Year Conference in Nashville was another splendid example in this respect, giving members the chance to learn about various alternate markets—including, interestingly enough, rent-to-own. Presumably Paul Black (Rent-All Equipment, Inc., St. Joseph, MO) and Bob Elmen (Elmen Enterprises, Sioux Falls, SD) didn't know they were supposed to "limit the information (they) pass along to outsiders." Although both are APRO members of some prominence, they couldn't have been more helpful—even though the Nashville seminars took place after the APRO show in question.

The sharpest barbs in the aforementioned editorial were aimed at APRO General Counsel Ed Winn—presumably a safe target, being outside our own industry. I use the qualifier "presumably" because, quite frankly, we've much more to gain by retaining cordial relations with our APRO brethren than by vilifying them—in my humble opinion. As an increasingly large number of rental operators in our own ranks have learned, rent-to-own can be extremely profitable—whether applied in its pure form as Black has done ("For every dollar that we take in in the tool rental business, we take in \$4 to \$5 in the rent-to-own business.") or in principle. (Joe Doran, in the interview that starts on page 43, maintains that most equipment rental centers have applied the rent-to-own concept to their businesses for years.) So it's a subject many rental operators may want to investigate further. And firsthand information from persons who have already pioneered the territory can be invaluable.

One person in particular who has gone out of his way to provide such information to our industry is Ed Winn. Yep, the same Ed Winn now being tarred—along with his entire association—as "regressive." Winn has demonstrated his friendship to our industry by lecturing on rent-to-own to both ARA and CRA groups. He has also authored a piece on that same subject for *Rental Product News* (see page 28). So I fail to understand our competitor's zeal in attacking someone who has exhibited such amiable cooperativeness toward our industry. I also question the wisdom of such attacks. As general counsel of APRO, Winn will probably be around for many years to come. Alienating him and/or APRO with childish insults could mean erecting a needless and harmful barrier between our two allied industries.

continued

THE PROBLEM IS THAT WHILE IT IS RELATIVELY EASY TO GET THE DOORS OF A RENTAL STORE OPEN, IT IS ALSO QUITE EASY TO MESS UP IN THIS BUSINESS.

into. It takes a modest credit line to buy some TVs, a store front, and a rental agreement, which can be "borrowed" from a dealer down the street. It may be a difficult business to run successfully, especially lately, but it is not a particularly difficult business to start up, compared with a computer retail business, a biogenetics firm, or steel mill, for example. It should be no surprise that people who were new in the business or poised to get into the business, and who were looking for help, found APRO and signed up for seminars and the APRO publications.

I have been to most APRO seminars over the years. I have usually spoken at them, but occasionally I have simply sat around and talked to dealers. I have never met anyone who told me, "You know, I was looking around at some different things to do, and after being in this APRO seminar for two days, I have decided that I'm going into the rent-to-own business." I cannot imagine anyone paying money and taking time to go to a two-day seminar without having already decided to go into the business.

If there were no APRO, I do not think there would necessarily be fewer rental dealers. It is profits, after all, that attract people to a business. I do think that without APRO the industry would be less "progressive," i.e. professional, than it is today.

It is my hope that all dealers have taken home information from APRO seminars that has made them better business operators; information that has helped them understand the business better; and information that has helped them stay out of trouble. I do know that some dealers who have never been to an APRO seminar have ended up on the front page of the newspaper, being accused of assorted illegal and unfair business practices. Those headlines have, in turn, alerted legislators and lawyers to the business and have, at times, caused problems for all other dealers in a state, and in a sense, the entire country. APRO has a three-inch binder in the home office full of bad press about the industry. The people in

the APRO office work every day to eradicate the "black sheep" image that others have so willingly cast for rent-to-own dealers.

It is probably a fact that the bad apples in this business will never go to an APRO seminar, not if we offer it to them free and hold it in their home towns. It is also true that if we at APRO are doing our job, curious dealers new to the business probably save some time and money by attending association functions and learning what other dealers have learned only by experience, and at a far greater cost. Existing dealers

might uniformly wish, in these tough times especially, that there were no new dealers. I have heard little talk lately of dealers welcoming "good competition" in their markets. The issue remains, however, that in an industry that remains legally sensitive, how do you alert new entrants to the dangers?

Without intending to belabor the point, take the less emotional example of rent-to-own accounting. At least half of the industry, and perhaps more, is committed to a quick write-off of rental units, using installment sale tax treatment, or income forecasting, or some

What'd He Say?

Still, if Winn really did say, as quoted in the editorial, "The rent-to-own business used to be the best kept secret in town, but lately the number of rent-to-own businesses has been growing faster than the industry itself," he probably deserves to be censored—if only for talking nonsense. However, Winn claims he never said it. "I'm sure I didn't say it," he told me. "I don't speak in non sequiturs. It doesn't make any sense. The industry can't grow faster than itself. And I have no evidence that the industry is growing any faster than APRO. I don't think it is."

On the other hand, Winn doesn't deny that the conversation took place, or that there was some concern voiced by APRO members with respect to their association going out of its way to recruit others to share their market. "Competition was very much a concern at the last APRO show," he acknowledged. "Competition increased in the past year. In my opinion, that's one of the things that happens with a popular and profitable business. Rental rates have been falling and the business has been flat for 12 months. And when an industry pauses to take a breath, everybody takes a little heat. The association takes its share."

In particular, some members felt APRO had gone a bit farther than it should have in sponsoring two booths at the last Consumer Electronics Show. "One booth was for our magazine," said Winn. "People didn't seem too upset about that. They did seem upset about having the association booth there, because it gave them the impression that APRO was recruiting retailers."

The APRO general counsel denies that such was actually the case. "My argument would be that we were there for retailers who had decided to go into rent-to-own. We wanted them to know that there is an APRO and that there are some issues to address. We don't want them to give the industry a bad name by starting out renting TVs with an illegal contract, which could be a fairly easy thing to do."

The other side of the coin? Winn says some members wondered if the extra booth represented an unwanted extra effort on APRO's part to actively recruit outsiders to come in and compete with them. General consensus among the members seemed to be that such initiative—if it ever existed—wasn't desired. "APRO board said, 'Fine,'" reported Winn.

Does such acquiescence constitute regression? Winn concedes that "It may make good copy to call APRO 'regressive,' but it's not very accurate. 'Progressive' has always meant, to the minds of our members, to run the business cleanly and profitably, to work toward a safe legislative environment and treat your customers with respect—some things not all rental dealers do. It doesn't have anything to do with who's in, or not in the business—and it never has."

As for courting more competition, Winn seemed to find the very idea laughable. "Nobody does that!" he exclaimed. "Not the restaurant business, the grocery store business or any other business."

The Real Issue

So what's the bottom line? Will Winn stop making outside appearances and cease writing articles for *Rental Product News*? "I have no instructions not to book future engagements," answers Winn. "So far as I know, I can keep going out

other methodology, none of which have been officially approved by the IRS. APRO regularly holds seminars to ventilate the issue and to prod the industry toward a consensus. APRO hasn't gone directly to the IRS itself, because the industry remains too divided on the issue. It is certainly conceivable that a rental dealer uncomfortable with the uncertainty and unknown to APRO could go to the IRS himself and have a ruling given affecting fully half of all rental dealers one way or the other. The open-door policy that APRO has promulgated to date has actually been to

avoid that sort of thing rather than an effort to encourage people, who might not do so otherwise, to open up a TV rental store.

Another concern expressed by the APRO founding fathers was one of publicity. This concern made it into the first written "purpose" in the association's bylaws:

a. To promote in a lawful manner the development, preservation, operation, maintenance, and general welfare of the members of the Association in the United States and to promote and inspire

public esteem of the rental industry.

Initially, the members wanted an institution to take the flak from a hostile press and reduce the risk of having any of their companies singled out. Years ago, I was appointed spokesman for the industry and have retained that role. Over the years, I have patiently explained the realities of the business to reporters who thought rent-to-own was the latest consumer rip-off scheme. Incidentally, lately I have talked much less often to consumer advocates who want me to justify the business, and far more to business reporters and investment people who want to know growth potential, size and profits, and the rent-

there and telling people whatever it is that I tell them, and nobody really has quarreled with anything that I've said."

Will Elmen and Black be censored? "In addition to his rent-to-rent business, Bob Elmen is very committed to his rent-to-own business," replies Winn. "He sees a great harmony there. There's nothing the association's going to do that's ever going to quiet him down about that. Nor is anybody going to try."

Is APRO going to stop recruiting members? "APRO represents, as best we can tell, about half of the rent-to-own stores in the country. We are going to continue to recruit members from the ranks of people who are in the rent-to-own business," asserts Winn. "But I think it accurate to say that the APRO members do not wish the association to be instrumental in helping people to get into this business."

In a sense then, everything we've talked about up to now essentially amounts to little more than the proverbial tempest in a teacup. However, there is a very vital issue here that we haven't yet touched upon. In my opinion, one of the great challenges facing our industry today is the need to educate the American public to the rental concept without, at the same time, inviting such a deluge of competitors that profit margins dwindle to next to nothing. As the English experience shows, it's a delicate balance that may not be easily achieved.

Frankly, I think we have much to learn from a closer look at what has been happening to our APRO brothers and sisters, and they from us. Like the rent-to-own market, our industry has been attracting outside competition—from drug stores, discount stores, hardware stores, equipment distributors. . . We can't blame it on effective recruitment by ARA, CRA or any other organization—no more than it made sense for APRO members to point the finger at their association. The magnet is profitability. And the danger is that increased competition could negatively impact that profitability. Bill Turk summed up the threat: "Overall, unless you're continuing to expand the pie, anything that increases competition is going to be a threat. It's going to cut down the share of the pie that everybody has."

Since there's no way to avoid that increased competition, we'd better make sure we handle it wisely. The mistake being made in the rent-to-own market is the suicidal election to compete primarily in the price department. Stores are cutting prices to the bone, and thereby destroying the very nice profit margins that attracted them to the business in the first place.

What is the alternative? To compete smarter—e.g., by using outside salespeople to expand your share of the market. By making better use of the resources we have on hand. By training and motivating your employees better. By joining and utilizing one or more of the excellent associations our industry has to offer. And by selling value, service and convenience. That's been the winning formula for our industry for years.

Newton Berry, Editor, Rental Product News

IT SEEMS LOGICAL THAT IF MORE PEOPLE KNOW THEY CAN RENT THINGS, THEN IT IS LIKELY MORE PEOPLE WILL RENT THINGS.

to-own industry's place in the overall leasing industry.

The feeling was, and is, that it is better to have a central clearinghouse for public information concerning the industry. Otherwise, the choice is to risk the industry being portrayed by what one dealer, or even store personnel, happen to think of to say on the spur of the moment. I do not think it regressive for an industry to have a policy of putting its best foot forward in statements to the public.

There is another element, however, "to promoting and inspiring public esteem" in addition to defending against attacks from opponents with ink barrels and microphones. The task of educating the consuming public about the benefits of the rental alternative has not been accomplished by a long shot. We can, of course, leave that responsibility with individual companies. Note, however, that the National Dairy Association regularly tells people to drink milk and eat cheese, and the Furniture Rental Association of America tells newlyweds in *Bride* magazine about the availability of furniture rental.

It seems logical that if more people know they can rent things, especially if the message is delivered in a positive and encouraging manner, then it is likely that more people *will* rent things. So, APRO has been busily spreading the rental gospel for several years. It is possible we haven't been preaching to

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VDMs, An Opportunity

Many rent-to-own dealers are looking for diversification to advance their operations. One option is video dispensing machines (VDMs), which I consider the newest opportunity in home video.

Granted, there are many pros and cons to be considered before investing in such equipment. To help you make that decision, here is what's out there and what it could mean to your cash flow.

The second generation of video dispensing machines is now available. Capable of renting and selling tapes, they are being installed in a variety of public and semi-public locations such as office buildings, company cafeterias, hotel/motels, and apartment complexes and malls. Unlike the first generation of VDMs that appeared several years ago, these new machines are smarter and better suited to the market they will be serving.

What is Available

There are ten or more designs in various stages of development and testing. Some include monitors that show clips of available movies, a robotic arm that restocks the returned tapes, and audio messages that "talk" to potential customers. Based on our research, we know of only two designs that have been field tested and are now available for sale. These are the Video Vendor and the Creditron. Both of these units were exhibited at the January 1986 Consumer Electronics Show in Las Vegas. Although other designs will undoubtedly reach this stage, equipment of this type requires extensive development and field testing.

Both the Video Vendor and the Creditron offer the following advantages:

UNLIKE THE FIRST GENERATION OF VDMs, THESE NEW MACHINES ARE SMARTER AND BETTER SUITED TO THE MARKET.

- Virtually no labor involved
- Built-in security provisions
- Up to 24-hour service
- Minimal space required
- Internal computer to perform accounting and inventory control functions
- Customer receipt printed
- Customer convenience
- On approved credit, both the VDM and the tape inventory can be leased.

The Video Vendor holds up to 320 tapes and accepts cash; the Creditron holds 168 tapes and accepts only credit cards. The Video Vendor is equipped with a robotic arm which puts returned tapes back in their compartments so they are immediately available for rental; the Creditron requires manual reloading of returned tapes. The Video Vendor accepts only cash (quarters, one and five dollar bills), but is equipped with a credit card reader which can be used for security and customer identification purposes. Since it does not make change, it registers credits for customers who deposit excessive cash.

The robotic arm feature of the Video Vendor can be a major advantage as it means that regular servicing is required only to rotate tapes and empty the cash box, usually a weekly operation. For this reason, many operators will find it better suited to their needs. The disadvantage of the Video Vendor is its relatively large size, 24 inches deep x 96 inches wide x 72 inches high. The Creditron is taller but not as wide, measuring 31 x 41 x 79. Both units are

equipped with sophisticated computers that keep track of inventory, customers, and income. Also, both are user friendly and offer flexible pricing.

Although minimal, both machines typically require some assistance from location personnel.

Just as different stores use different procedures to protect against tape loss, the VDMs employ various security methods depending on where they are located. The ultimate arrangement, in terms of minimal management involvement, is direct connection of the VDM to a credit card computer. This arrangement is not without its disadvantages, however. Both connection and transaction costs are involved and, at busy times, delays can result.

Another arrangement is to require first-time VDM users to sign a security application, either with or without a credit card number. This can be handled by the owner/operator or by personnel of the host location. Many arrangements are possible. As in a store, it comes down to balancing loss prevention against customer relations.

Where To Put It

As is the case with any retail business, site selection is critical. In the case of VDMs, special criteria apply. Although traffic count is still important and must be adequate, non-competitive convenience can be an even more important factor. Examples of sites that meet this criterion are company cafeterias, hospitals, hotel/motels, and large office buildings. These locations can be more profitable because tape renters will pay more for the convenience of 24-hour service, and not going out of the way to stop on the way to or from work to pick up and drop off tapes. Some of these locations also offer the additional

opportunity of renting video cassette players and/or monitors.

Experience has shown that a claim made by one VDM manufacturer to "Just load [the] machine, plug it in [and] collect your money" is misleading in that such an approach, as might be expected, certainly does not produce maximum profits. Creativity and attention to detail in establishing procedures, programs, and promotions are vitally important and can yield big dividends. Tiered pricing, publicity, club memberships, contests, intelligent title selection and rotation, and grand openings will all contribute to a successful operation.

Based on 360 rentals per week at \$2.50 each, the following cash flow can be projected. This level of activity appears to be quite reasonable for a well-stocked, well-located machine that is properly promoted.

Rental Income	\$46,800
Used Movie Sales	\$9,000
Total Income	\$55,800
Space Rental	\$4,680
Lease Payments	\$9,300
New Tapes	\$19,800
Maintenance	\$1,500
Insurance & Taxes	\$1,000
Miscellaneous	\$1,000
Total Expenditures	\$37,280
Net Cash Flow	\$18,520

This projection also assumes that 30 tapes per month are purchased for \$55 each and sold for \$25 each. Depreciation, income taxes, and labor have been omitted.

The VDMs, without inventory, are priced in the \$12,000 to \$18,000 range and, credit permitting, can be lease/purchased (with inventory) for less than \$5,000 down.

Based on experience, information obtained from industry contacts, and the results of a field survey conducted by California-based Specialty Video Services, there is a clear indication that VDMs are off to a strong start and will become a major factor in home video. Although there are still some unknowns, there appear to be no fundamental problems with either of the two available machines. Further, their acceptance by owners, site managers, and customers has been promising so far. If they are well-placed, well-promoted, and if attention is paid to procedures and title management, owners and operators can reasonably expect them to generate attractive profits.

Jim Lahm of J. Lahm Consultants, Fullerton, California, is a consultant in the home video field and author of the Video Movie Manual.

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Liability for Mistakes in Yellow Pages Ads:

What to do when it happens to you

Rental dealers express mixed emotions about using Yellow Pages ads. Most feel that they cannot afford not to buy space every year, and the debate is reduced to what categories to advertise under and how big an ad to place. This article will not answer questions raised by that debate. It will, however, review several lawsuits involving yellow pages customers and the telephone company.

Most dealers will never know the agony of seeing a new Yellow Pages directory come out with the wrong telephone number in their ad or the wrong name or the wrong placement. Indeed, the different telephone companies are very good at printing yellow pages ads accurately. In a case in Wisconsin, the Wisconsin Telephone Company admitted an error factor of one or two per 1,000 ads in the yellow pages, *Discount Fabric House of Racine, Inc. v. Wisconsin Telephone Co.*, 345 N.W.2d 417 (Wis. 1984). In a Georgia case, the telephone company admitted

9 (Ga.Civ.App. 1977). However infrequent the error, the business whose ad is miscast can suffer enormously. It has happened to one or two rental dealers around the country, and, over time, it will happen to a few more.

Limitations

The contract that rental dealers, and anyone else buying space in the yellow pages, signs states that the telephone company's liability for any errors or omissions in the ad is limited to the amount paid for the ad. What that means is that by signing the contract, the ad buyer is agreeing that if the telephone number is misprinted in the ad, he can get his money back, and, in effect, not have to pay for the incorrect ad. He is also agreeing that he cannot sue the telephone company for any other damages, for example from lost sales, even if he could prove them.

The law tends to uphold exculpatory clauses in contracts between business people the way they are written. While legislation and court decisions have made considerable inroads into the notion of freedom of contract where consumers are concerned, the doctrine still exists relatively untouched as between merchants. The rationale for this doctrine is that merchants are held to a higher standard than consumers, and are presumably better able to protect their own interests during contract negotiations than people with no business experience.

OF PARTICULAR NOTE, PERHAPS, IS THE NEW JERSEY CASE, SINCE THAT STATE'S JUDICIAL SYSTEM HAS A HISTORY OF DECIDING LANDMARK CASES IN THE AREA OF COMMERCIAL LITIGATION.

Not surprisingly perhaps, a large number of courts have upheld the limit of liability provisions in telephone company contracts under the circumstances described above. The following states have case law in favor of the telephone company on the issue of contractual limits of liability for errors in yellow pages advertisements: Texas, Maryland, South Carolina, Florida, Louisiana, Oklahoma, Missouri, Montana, Arkansas, Kansas, Colorado, Arizona, Kentucky, Iowa, Tennessee, Illinois, and New York.

Trend Changing?

Recent cases in three states, however, indicate that the trend may be changing. Cases in South Dakota, Wisconsin, and New Jersey have all held that the telephone companies' exculpatory clauses were unenforceable for different reasons. Of particular note, perhaps, is the New Jersey case, since that

HOWEVER INFREQUENT THE ERROR, THE BUSINESS WHOSE AD IS MISCAST CAN SUFFER ENORMOUSLY.

an error rate of one-half percent out of 345,000 yellow pages ads, *Southern Bell Tel & Tel Co. v. C & S Realty*, 233 S.E.2d

state's judicial system has a history of deciding landmark cases in the area of commercial litigation.

The New Jersey case *Tannock v. New Jersey Bell Tel. Co.*, No. L-038560-84 (Camden County Sup. Ct., 1986), decided in early 1986, ruled that the limitation of liability clause in the New Jersey Bell Telephone Company Yellow Pages contract was unenforceable, and did so based on a New Jersey Court of Appeals case decided the year before.

"Exculpatory clauses like this one are valid where they do not adversely affect the public interest, where the exculpated party is not under a public duty to perform (as in the case of a public utility or common carrier) and where the contract does not grow out of unequal bargaining power or is otherwise unconscionable." *Tessler and Son, Inc. v. Sonitrol Security Systems of Northern New Jersey, Inc.*, 203 N.J. Super. 477 (App. Div. 1985), at 482-83.

The court in the telephone company case measured the yellow pages exculpatory clause by two criteria: (1) did the parties have equal bargaining power so as to allow actual negotiations to occur regarding that clause in the contract; and (2) is the clause substantively unreasonable?

The court found there was no true equality of bargaining power between the parties and that the contract was presented on a "take-it-or-leave-it" basis. This same notion swayed the Wisconsin court in the case in that state, *Discount Fabric House of Racine, Inc. v. Wisconsin Telephone Company*, 345 N.W.2d 417 (Wis. 1984). The New Jersey court also examined the placement of the clause in the contract document and concluded that it was, in effect, "hidden" by the telephone company to avoid having the yellow pages customer notice it.

"This court has observed that the print size in question is approximately one-sixteenth of an inch high and very light in color, providing a poor contrast to the off-white color of the paper on which it is printed. . . . Taken as a whole, the contract Bell presents to its subscribers discourages the actual reading of it. The print is too small to be read by an average person without the aid of a magnifying glass." *Tannock* at 5.

Such language concerning type size and the like is rare in a commercial set-

IT HAS HAPPENED TO ONE OR TWO RENTAL DEALERS AROUND THE COUNTRY, AND OVER TIME, IT WILL HAPPEN TO A FEW MORE.

ting, although frequently mentioned in consumer cases. There is no particular reason that a merchant's eyesight is any better than a consumer's, and the court may be correct in concluding that the format of any contract which inhibits its reading may be unfair.

The law has long recognized that certain parts of a contract are so important that they must be set apart or otherwise brought to the attention of all parties. In the Uniform Commercial Code, for example, disclaimers of warranty liability must be conspicuous, and the Code explains how to make contractual language conspicuous. The New Jersey court seems to be saying that an exculpatory clause, under the circumstances of yellow pages advertising, is sufficiently important to require that it be placed conspicuously in the contract, which the telephone company did not do.

The second question asked by the court really raised the question of unconscionability again, a doctrine rarely applied in a commercial setting. The court concluded that to limit the telephone company's liability in the manner allowed by the exculpatory clause would be so unfair to the advertiser as to be unconscionable in that state. The court dismissed all of the arguments raised by the telephone company as unpersuasive.

It is too early to tell what the response to these cases will be either by the telephone companies or by courts in other states. It does give rental dealers some hope, however, of success if they are ever in the position of having to sue a telephone company for a mistake in a yellow pages ad.

Copies of any or all of the opinions are available to APRO members upon request from Edward L. Winn, III, Kammerman, Overstreet, and Hurren, 1020 MBank Plaza, Austin, Texas 78701, (512) 474-6436. **PR**

Edward L. Winn III is the general counsel for APRO and is a frequent contributor to PROGRESSIVE RENTALS.

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Tennessee Bankruptcy Court Strikes Down Rental Program

Here's an account of just how wrong things can go

Consumer bankruptcies continue to affect rental dealers across the country. Most dealers who have been in business any length of time have had at least one customer file for protection under either Chapter 7 or Chapter 13 of the U.S. Bankruptcy Code.

Often customers will list the rental dealer as a creditor in the documents he or she files with the court. As soon as the rental dealer receives official notice of the filing, all collection efforts must cease. Dealers can always go along with whatever it is that the debtor customer is proposing. In a Chapter 7, it may mean accepting less than full value for the property rented. In a Chapter 13, it may mean accepting a pay back plan on different terms from those originally agreed to in the rental agreement.

Most dealers, however, would prefer not to do business with a bankrupt customer, and simply recover their merchandise. The procedure for doing this is to file a motion to lift the bankruptcy stay and to prove that the rented property has been improperly placed in the bankrupt customer's estate. APRO has available a bankruptcy packet including the motion and appropriate case authorities for making the argument.

Three years ago, dealers were able to recover their merchandise from the bankruptcy trustee in only about 50 percent of the cases. Today, with the various states' rental-purchase statutes in place, the figure is close to 80 percent. But dealers do not win in every case, nor are they ever likely to. Dealers have been quite successful in Georgia by making use of the Georgia lease-purchase statute. In northern Alabama,

next door, however, dealers have been less fortunate before the bankruptcy judge.

It is simply a fact of life that judges are enormously powerful creatures and within certain limits can decide cases the way they see fit. And there are bankruptcy judges who quickly develop a reputation as being pro-debtor or pro-creditor. These judges are not above finding the law that suits their view of how a case should be decided and ignoring any contradictory law.

Judging the Case

The analysis that follows chronicles a case from the United States Bankruptcy Court, Middle District of Tennessee. It has a cast including a pro-consumer judge, five bankrupt rental customers, two retailers, and a rental dealer. There are several lessons that dealers can learn from a careful study of this set of facts.

The dangers of running a rental operation and a retail operation out of the same location cannot be overemphasized. The Tennessee Bankruptcy judge in this case recently held that certain rental transactions were security interests under the Uniform Commercial Code, preventing the two different retail/rental dealers from repossessing rental property from at least five different bankrupt customers and leaving them in the status of unsecured creditors (*In re Puckett*, 6 B.R. 223 [M.D.Tn. 1986]).

Once the judge made up his mind that the transactions were not true

leases and were instead security agreements, he took the dealer to task for "(mis)leading the public that the [rental] contract is just another form of financing." In proving the point, the court relied heavily on every court case decided against a rental dealer, largely ignoring those cases decided in favor of the industry.

The facts in this Tennessee case are unique. It is unlikely that any other rental dealer is doing business in exactly the same manner as this Tennessee dealer; therefore, the case will have little, if any, precedential value in future controversies. Nonetheless, an analysis of certain facts in this case may prove instructional to dealers if only to demonstrate how wrong things can go.

Essentially, the rental dealer entered into contractual arrangements with certain TV, appliance, and furniture retailers. The dealer provided the rental contract forms, training for the retailers' personnel, and certain other matters in exchange for a percentage of the rental revenues. The retailer provided the storefront, product, marketing, and presumably delivery and pick-up.

As the court recited the facts, customers initially came to the retailers to purchase merchandise. When they applied for credit and were turned down, they were informed of another way to acquire ownership of the property. The judge quoted the customers, and stated that he found them all to be credible witnesses.

He [salesman] told the debtor "There was [sic] other ways [they] could get approval."

The next day Harlan called the

THE FACTS IN THIS TENNESSEE CASE ARE UNIQUE.

store and was told that his credit application had been rejected but that he should "just come on in anyway and that there was a way he could fix it where I could purchase this bed."

An employee of [the retail store] later informed her that their credit application had been rejected but that "there was this new plan and that I qualified for it. It would make my credit better."

The court concluded that all of the bankrupt customers intended to buy the products they were renting and noted that the store did not explain the difference. The customers all testified that they did not read their rental agreements. The customers also testified that they were led to believe they were buying the merchandise they were renting.

There is, of course, no way of knowing what the customers were told in the store. It is not surprising that customers allowed to testify under such circumstances about what they "understood" the deal to be remembered the facts in a self-serving manner.

Retail & Rental: A Bad Mix

There is an inherent problem in a retail store. It is logical to assume that customers enter a retail store to purchase merchandise. That is less the case in a true rental store clearly labeled as such. It is dangerous to attempt to qualify customers for credit and then switch them over to a rental transaction. The risks of confusing the customer are great and a dealer with confused customers is a dealer who will ultimately get sued.

It is easily one of the greatest perils in the business—the customer who does not understand the program. The only way a customer is going to understand the rental program is if he has it explained to him by qualified store personnel who understand the program themselves. The court criticized the Tennessee dealer by noting that the retail salespeople "demonstrate little ability to explain these transactions and [the dealer] exercises no obvious control over what the retailers tell customers."

The danger to dealers is twofold. The first danger is that store employees have

not been properly trained to explain how a rental-purchase transaction works. The solution is an ongoing training program with testing and review to measure what kinds of information are being imparted to the customers. The second danger is a customer who claims to understand the transaction, and who does not have time for an explanation of it. A prospective customer who will not sit and read a rental agreement and listen to an explanation of its terms is a problem waiting to happen. There are dealers who will not rent to such customers because they are unwilling to assume that risk. Based on the Tennessee case, that is a good policy.

IT IS SIMPLY A FACT OF LIFE THAT JUDGES ARE ENORMOUSLY POWERFUL CREATURES AND WITHIN CERTAIN LIMITS CAN DECIDE CASES THE WAY THEY SEE FIT.

Before merchandise is rented, customers should be asked questions to determine how well they understand the terms of the contract. It is a legal arrangement they are entering into. They are obtaining the use of property worth far more than their initial rental payment. That means the rental dealer is immediately at risk as soon as the product leaves the store. The customer has the rental property and the dealer has only one rental payment. The best way to minimize the risk inherent in the relationship is to make certain that the customer understands his obligations from the beginning. As long as there are rental customers in the country who genuinely believe they are buying the property, the whole system of rent-to-own remains at risk.

Under the appropriate section of the Uniform Commercial Code, and indeed under common law rules of contract generally, it is the intention of the parties that controls how a court will interpret an agreement. The Tennessee court stated in the strongest terms that it was clear the customers intended to buy the property and even "believed that their contracts with [the dealer] were sales with financing." Ordinarily before reaching such a conclusion, a court might inquire into the intent of the other party to a contract. Most dealers

MOST DEALERS UNDERSTAND CLEARLY WHAT BUSINESS THEY ARE IN, AND IF GIVEN A CHANCE TO EXPLAIN A RENTAL PROGRAM COULD DO SO CONVINCINGLY.

understand clearly what business they are in, and if given a chance to explain a rental program could do so convincingly. In this case, however, the judge held the dealers responsible for the mistaken impressions of the customers and ignored whatever intention the dealer offered in court.

The court did err when it stated, as an example of misleading conduct, that "the forms used by [the dealer] are indistinguishable from those routinely used in conventional security transactions." Actually, the dealer was conforming his contracts with the requirements of the federal Consumer Leasing Act. Since there was a minimum rental term of more than four months required, the dealer had to write his agreements in a form prescribed by the statute. He is hardly to be faulted if that form resembles the forms required under the Truth-In-Lending Act. Actually, there are noticeable differences between the two forms, and the judge conveniently ignored the existence of a Consumer Leasing Act in his opinion.

Unfortunately, the dealer did provide the rental customers with payment books containing tear-out payment coupons. This implies an obligation and

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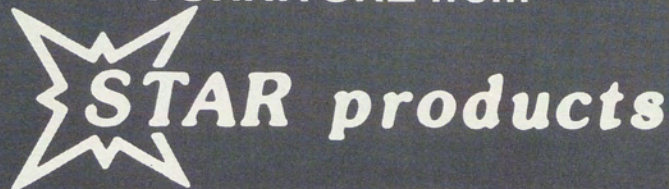
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BANKRUPTCY

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is indistinguishable from the way typical credit sales are carried out.

The court also noted that the dealer used the term "sales tax" on the form instead of "use tax," which, the court argues, would have been the correct term under state law. The court cited this as further evidence of the dealer's tactics to mislead the customers about the nature of the transaction.

A lot of dealers around the country use the term "sales tax" in their rental agreements. Most often they have been told that they must collect the tax and disclose it on the contract. Dealers are advised to consult with their state taxing authorities and verify use of the term "sales tax." If possible, dealers are advised to get a letter from the comptroller requiring use of the term "sales tax," if indeed that be the case. In states where dealers have the alternative of collecting a use tax and employing that term, they are advised to do so.

The court went on to point out 13 other factors which led it to the conclu-

IN PROVING THE POINT, THE COURT RELIED HEAVILY ON EVERY COURT CASE DECIDED AGAINST A RENTAL DEALER.

sion that the rental agreements in question were disguised credit sales. Many of the factors are unique to the facts presented, since most rental dealers do not do business the way this dealer did. A few of the factors, however, apply to most typical rental-purchase transactions and should be noted.

1. *Rental dealer as financier.* The court concluded that on the facts, the rental dealer took the role of a third-party financier rather than a true rental dealer. This is because of the contractual relationship between the dealer and the retailer. In effect, the dealer had no store, no inventory, no storage facility, and no repair facility. Rather, he had a principal/agent relation with various retailers who found and serviced rental customers by using the dealer's forms. This arrangement is much more common in the commercial setting, and the court looked to commercial lease cases for guidance in characterizing the agreements.

2. *Insurance and Risk of Loss.* The dealer shifted the risk of loss to the customer, which is how all rental dealers generally do business. Unlike most rental dealers, however, the Tennessee dealer required all customers to provide insurance on the rental property.

3. *Maintenance and Repairs.* In addition, the dealer shifted the responsibility for all maintenance and repairs to the customer. This is unique to the Tennessee case, as most dealers provide full service and repairs as part of the rental arrangement.

4. *Taxes.* The Tennessee dealer shifted the responsibility for all taxes on the property to the customer. Most dealers agree in their contracts to pay any personal property taxes, since they are claiming title to the property.

Dealers should note all of the items listed above have been referred to in other cases as "indicia of ownership." They are things people have responsibility for when they own property. Stated simply, the law says that when too many of the indicia of ownership are shifted from a lessor to a lessee, the transaction takes on the appearance of a sale. Here, the court stated that, in effect, all of the indicia of ownership, at

THE DANGERS OF RUNNING A RENTAL OPERATION AND A RETAIL OPERATION OUT OF THE SAME LOCATION CANNOT BE OVEREMPHASIZED.

least those enumerated, had been shifted to the rental customer.

5. *Default Provisions.* The Tennessee dealer gave customers the right to terminate the transaction with no further obligation, which is typical of rental-purchase agreements. The court acknowledged that the absence of any acceleration of payments clause was different from a typical financed sale, but, the court concluded, not different enough when stacked up against all of the similarities.

6. *Nonrefundable security deposit.* The Tennessee dealer charged a nonrefundable security deposit, which, because it was nonrefundable, looked exactly like a down payment to the court.

continued on page 39

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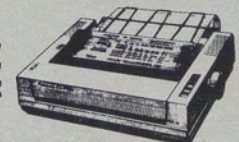
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BANKRUPTCY

continued from page 37

7. *Three-party transactions.* The court stated, "Where the customer's goods are purchased by the seller/lessor from a designated third party for the customers, courts have found the transaction to be a secured financing arrangement and not a true lease."

8. *Calculation of payments.* The court criticized the dealer for basing his rental payment schedule on the retail price of the goods. The court implied that a true lessor would base rental rates on cost of goods, depreciation of the property, or expected value at the end of the term. Indeed, the pricing policy of most rental dealers is based on this cost of goods,

THE CUSTOMERS ALL TESTIFIED THAT THEY DID NOT READ THEIR RENTAL AGREEMENTS.

although the new statute passed in New York state does require dealers to work from a "cash" or retail price. The good news is that the New York statute also states that a rental-purchase agreement is neither a credit sale nor a security interest under state law.

9. *Warranties.* The court merely declared without any real authority for such a proposition, that the disclaiming of all warranties by the dealer was evidence the transaction was a sale and not a lease.

10. *Equity build-up.* Again with scant authority, the court stated that the existence of an early buy-out option that declines over time was evidence that the customer was building up equity in the merchandise. The court did not address the argument that any early buy-out option might merely be an expression of the decline in the value of the property, which, of course, is what it is.

11. *Useful life.* The court stated that "where goods have a useful life to the customer in excess of their economic value to the lessor, an inference is raised that the agreement is a security interest and not a true lease." Here the judge took considerable liberty with the law, as, indeed, if that statement were applied literally to leasing cases, there could be no true lease unless the lease term lasted as long as the property lasted. No other court has suggested that the law be carried to this extreme.

12. *Deferral charge.* The dealer had a deferral charge, similar to a reinstatement fee, which allowed a customer in arrears to pay a fee and get caught up on his payments without having the contract cancelled altogether by paying a fee. The court simply stated without

THE JUDGE DETERMINED THAT THE LAW REQUIRED HIM TO LOOK AT ALL THE FACTS AND CIRCUMSTANCES SURROUNDING THE TRANSACTIONS, WHICH IS WHAT HE DID.

explanation that the charge made the transaction look like a sale.

13. *Sophistication of the parties.* The court held that the unequal bargaining position of the parties was relevant to the characterization of the transaction as a sale. If that were the law, there would simply be no such thing as a consumer lease, since there is never true equality of bargaining position in consumer transactions.

Importantly, as the court points out, no single factor was necessarily conclusive in the court's determination. The judge determined that the law required him to look at all the facts and circumstances surrounding the transactions, which is what he did.

The dealer did argue that the lack of legal obligation to make payments ought to override all of the other factors. The court rejected this argument and, in so doing, adopted the "economic obligation" argument. This argument says, in effect, that when a customer has no realistic economic choice except to keep making payments, that is the same thing as a legal obligation. If that were the law, all rental-purchase transactions would turn into credit sales in the 17th month. The problem with this analysis is that it is inherently subjective. A sense of economic obligation will arise in different people at different times. For some, it might arise in the first month; in others, it might not arise until the 15th or 16th month. In still others, it might not arise at all. And if it does arise, what response could a dealer make at the time? This analysis allows rental transactions to become credit sales after the fact, which is not a legal conclusion that will work in the market-

place. It is for this reason that every court until this one has rejected the argument and drawn the line at legal obligation which can be more readily delineated.

In spite of the peculiarities of this case, both the dealer's manner of doing business and the judge's interpretation of it, there are lessons in the case for all rental dealers. Be careful what store employees tell customers. Be careful when writing contracts not to shift too many obligations onto the customers. Be aware that judges are powerful creatures. Once they have determined that the law should be against you for whatever reasons, they have considerable flexibility to bend it to suit their purposes. Profitable rental dealers seem to end up in court only rarely. One of the reasons may be a legitimate fear that despite having to throw good money—for lawyers—after bad—dealing with a bad customer—they may still get a ruling like this one, which can haunt them for years.

Copies of the court case are available to APRO members upon request from Edward L. Winn, III, Kammerman, Overstreet and Hurren, 1020 MBank Plaza, Austin, Texas 78701, (512) 474-6436. **PR**

Edward L. Winn III is the general counsel for APRO and is a frequent contributor to PROGRESSIVE RENTALS.

Have you made plans to renew your APRO membership?

For more information, contact the APRO office at (512) 478-6521

FOR SALE — 10 Olivetti A-4 posting machines suitable for the rent to own business. Original cost new approx \$3500. Sale price **\$800 each**. Contact Television Management, 4400 Trenton St., Metairie, La. 70006. Phone 504-887-7783.

PRODUCT FOCUS



ZENITH #VR3300

Zenith has a new series of mid-sized VCRs suitable for use in both home video and audio systems. Called "midi" models, they are almost 25 percent narrower than conventional VHS decks and are designed to match the width of many new audio components and the compact cube cabinets of today's table-model TV sets.

Two models are available, both of which use a front-loading mechanism that has been rotated 90 degrees from a conventional front-loading VCR; the tape is inserted hubside down, narrow end first, resulting in models less than 13 1/2 inches wide. Both have VHS HQ circuitry.

Model VR2300 features 14-day, four-event programming; direct input programming with on-screen data display; brown-and-bronze-tone finish. Suggested retail price: \$899.

Model VR3300 has the following features: clear special effects; 14-day, eight-event programming, direct input programming, on-screen display; audio dub; high-tech black finish. Suggested retail price: \$999.

For more information, contact: Zenith Electronics Corp., 1000 Milwaukee Ave., Glenview, IL 60025, (312)391-8181.

Akai has expanded its line of component audio cassette decks with a three-head model designed for the serious recordist. The closed-loop dual-capstan drive contributes motional stability to the tape transport, reducing wow and flutter. Other features of Model GX-8: bias trim control; a wide-range (18 element) peak-reading meter; high-purity

signal contacts; and Dolby B and C noise reduction. The highly functional faceplate has oversized rotary controls.

Suggested retail price: \$570. For more information, contact Peter Dobbin, 142 W. 24th St., New York, NY 10011, (212)807-1400.

Sharp has added a new 2.9 pound VHS-C camcorder with one-hour recording capabilities to its line. Model VC-C50UA offers full-size VHS compatibility as well as portable convenience in the compact unit. It records on cassette-size video tape, which fits into a special full-size VHS adaptor for easy playback.

Additional highlights: AV/input terminal for direct hook-up to a VCR or television; F1.6, 6x power zoom lens with macro-focus; electronic four-digit tape counter with memory; large control buttons; palm-fit grip for one-hand operability. The unit can be powered by

AC, battery pack or car battery. Suggested retail price: \$1,599.95.

Rounding out Sharp's camcorder line is Model VC-C20UA, a 5.3-pound unit with stereo recording and playback capability. Automatic features include auto focus, white balance, iris control, power-off and auto-date, plus two editing functions: two-channel audio dubbing and video insert. Powered by AC, battery pack or car battery, the model also features an F1.2, 6x power zoom lens with macro-focus and electronic four-digit tape counter with memory.

Suggested retail price: \$1,799.95. For further information, contact: Sharp Electronics Corp., Sharp Plaza, Mahwah, NJ 07430.

Quasar offers three audio-video systems, all centering around the TT9909 26-inch monitor and featuring wireless remote controls for audio, CD, VCR, and TV functions. The PAS25AV system (suggested retail \$1,449.95) has 20 watts per channel RMS and unified remote control. Model PAS56AV is a 50-watt per channel (RMS) system (suggested retail \$1,599.95).

The top of the Quasar line, model PAV5600, is a 50 watt-per channel system housed in a horizontal style AV cabinet with matching three-way magnetically shielded speakers. Suggested retail price: \$1,899.95.

For more information, contact: Tom Lauterback, Quasar, 9401 W. Grand Ave., Franklin Park, IL 60131, (312)452-2407. **PR**

Editor's Note: Suppliers should direct all release information to PROGRESSIVE RENTALS at 1866 InterFirst Tower, Austin, TX 78701.



AKAI #GX-8

AUDIO RENTAL

continued from page 8

ously, if an entire system malfunctioned, the entire system was down for an indefinite period of time. With component systems, one separate component of the stereo can be repaired much easier than the entire system, and the rest of the system can still be used in the meantime. This, in turn, makes for easier pick-up and service for dealers and higher customer satisfaction since they can keep the rest of the system on hand. As one midwest dealer pointed out, "I rent more equipment with component systems. Once a customer sees what he can get, he usually wants the entire unit."

Compact disc players came on the scene with a big splash a few years ago. Many dealers across the country decided to reel in the upscale, innovative customers by offering the players along with high-end stereo systems. However, the players haven't brought in the business expected and some of those dealers who made the initial investment are winding up all wet. Although some rental dealers are successfully renting CDs, it appears that for most dealers, CD rentals is an idea whose time is yet to come for rent-to-own.

Sam Garcia, manager at ABC Rentals in Arlington, Texas, says that the CD sound is much clearer, but that's not enough to make the players worth the higher cost to most rental customers.

"Customers find that the added price of renting a CD player isn't worth it to them," says Garcia.

John Lear, manager at Rent-A-Center in Aurora, Illinois, says what makes the system prohibitive to his customers is the additional price of the discs themselves.

"After a customer pays for renting the player, he also has to pay \$15 to \$20 for a single CD," says Lear. "That makes the system even more expensive to own."

Karen Meyer, owner of Commodore Rent-All in Erie, Pennsylvania, says that the CDs are still too new to be accepted for some renters.

"Out here in our neck of the woods things catch on slower than the rest of the country. We're not renting the players too well now, but maybe in a year or so we will."

This year's APRO survey results point to a decided styling preference by customers according to dealers. The sophisticated black-face finish is

continued

Improving Sight and Sound: The Manufacturer's Viewpoint

Technological advances in stereo systems and customers' increased brand awareness offers new challenges to rent-to-own dealers and their employees. According to Don Baron at General Electric Audio/Video, 45 million American households still don't have stereo systems. That offers quite a marketplace for rental dealers. And manufacturers want to see those homes equipped with stereos as much as dealers do. But before that happens, some manufacturers say changes will have to take place on the dealer's end of the transaction.

"To make a final sale, dealers and their employees are going to have to do their homework," says executive vice-president of Sansui, Hiro Higashimori. "Store owners need to be more educated to the differences between an \$800 system and a \$2,000 system," says Higashimori. "The systems may look similar, but the quality in the high-end system is much different. Sales people have to be more aggressive and convince the customer that the high-end item with more features is worth the price."

Manufacturers believe that as they introduce models with high-tech advanced circuitry, sales people in the stores must develop the know-how to explain the new equipment and its benefits to the customer. "It helps both the dealers and the suppliers," says Higashimori.

Much of the new, sophisticated equipment being introduced by manufacturers includes more convenience features, higher wattage, A/V compatible components, and sleeker, more compact designs.

Joe Richter, national sales manager for home audio at Kenwood, says Kenwood is introducing a whole new line in 1987 with fewer rack systems and more emphasis on component systems. Their new systems will be "leaner and meaner" he says, with more consumer-oriented features like remote-control selectors with three times the programming capabilities it had before. New "midi" component systems also will be available from Kenwood in 1987. The midi system is between standard size and miniature size and will fit better into apartments, condos, mobile homes and boats, says Richter. The systems consist of amplifiers, tuners, cassette tape decks, compact disc players, amplifiers, and small speakers. "Everything that's included in a normal system, only smaller," says Richter.

William Bierenkoven, vice-president of sales for Pilot Audio, says Pilot is introducing two new "Eurostyle" A/V systems that will have particular appeal to the rental market. The new models will include an audio system plus a 20- or 25-inch television set nestled in a space-saver cabinet.

"It's a space-saving system because the speakers are part of the actual cabinet pedestal that houses the system," says Bierenkoven.

Jon Duncan, national sales manager for audio at Hitachi, says all the systems at Hitachi will be upgraded for 1987. "They will include increased wattage, high-speed dubbing and amplifier hook-ups for A/V capabilities," says Duncan.

Jim Rives, national rental accounts manager at Soundesign, says they didn't used to have as much competition in the rent-to-own market before 1986, but now he certainly does. "With the increased competition, Soundesign has to be sharper. We're prepared for the competition and we've got some innovative cabinetry coming up in 1987," says Rives.

All of the manufacturers are gearing up in a big way for the 1987 Consumer Electronics Show in January. All will have new products to show. And all hope for continued success in the rental market in 1987.

Audio Supplier Who's Who

The status of audio in rental-purchase is underscored by the number, scope, and reputation of audio suppliers now working with the industry. The following list of current suppliers details not only company addresses and phone numbers, but products supplied as well.

Akai
800 W. Artesia Blvd.
Compton, CA 90224
(213) 537-3880
Turntables, receivers,
speakers, rack systems,
tape decks

Denon
27 Law Dr.
Fairfield, NJ 07006
(201) 575-7810
Tape decks, CD players,
amps, tuners, receivers

Fisher
21314 Lassen St.
Chatsworth, CA 91311
(818) 998-7322
Receivers, speakers, turn-
tables, CD players, tape
systems

General Electric Audio
Electronics Park
P.O. Box 4840
Syracuse, NY 13221
(315) 456-3396
Audio entertainment sys-
tems of all types

Hammond
4334 Scotsdale
Dallas, TX 75227
(214) 388-0523
Stereo speakers

Hitachi
401 W. Artesia Blvd.
Compton, CA 90220
(213) 537-8383
Rack systems, tuners,
amps, receivers, CD
players, speakers, turn-
tables, tape systems

JVC
41 Slater Dr.
Elmwood Park, NJ 07407
(201) 794-3900
CD players, receivers,
turntables, tape decks,
speakers, amps, tuners

Kenwood
1315 Watson Center Rd.
Carson, CA 90745
(213) 518-1700
Complete line of audio
equipment

Kingspoint
106 Harbor Dr.
Jersey City, NJ 07305
(201) 432-7707
Portable AM/FM stereo
and cassette players,
compact stereos, rack
systems

Magnavox/Philco
P.O. Box 14810
Knoxville, TN 37914-1810
(615) 521-4316
Receivers, CD players,
tape decks, turntables,
speakers

Marantz
20525 Nordhoff St.
Chatsworth, CA 91311
(818) 998-9333
Complete line of stereo
component, cabinet, and
rack systems

Mitsubishi
5757 Plaza Dr.
P.O. Box 6007
Cypress, CA 90630-6007
(714) 220-2500
CD players, tuners, amps,
receivers, turntables,
tape decks, speakers

Panasonic
One Panasonic Way
Secaucus, NJ 07094
(201) 348-7000
Stereo component systems

Pilot
101-10 Foster Ave.
Brooklyn, NY 11236-9973
(718) 257-7000
Rack systems, cassette
players, 8-tracks,
speakers, turntables,
receivers

Pioneer
5000 Airport Plaza
P.O. Box 1720
Long Beach, CA 90815
(213) 420-5700
Tuners, speakers, CD
players, turntables, tape
decks, amps

RCA
600 N. Sherman Dr.
P.O. Box 1976
Indianapolis, IN 46201
(317) 267-5535
Audio/video home enter-
tainment systems

**Samsung Electronics
America**
301 Mayhill Street
Saddlebrook, NJ 07662
(201) 587-9600
Complete line of audio
products

Sansui
1250 Valley Brook Ave.
Lyndhurst, NJ 07071
(201) 460-9710
Amps, equalizers, tuners,
headphones, turntables,
speakers, tape players,
receivers

Sanyo
1200 W. Artesia Blvd.
Compton, CA 90220
(213) 537-5830
Rack systems, CD players,
turntables, speakers,
tape decks, receivers

Scott
20 Commerce Way
Woburn, MA 01888
(617) 933-8800
Turntables, receivers,
amps, headphones, tape
players, speakers

Sherwood
13845 Artesia
Cerritos, CA 90701
(213) 926-6337
Speakers, turntables,
receivers, tape players

Sony
Sony Drive
Parkridge, NJ 07656
(201) 931-6234
Receivers, turntables, tape
systems, speakers, CD
players

Soundesign
34 Exchange Place
Jersey City, NJ 07302
(201) 434-1050
Stereo component sys-
tems, portable stereos

Teac
7733 Telegraph Rd.
P.O. Box 750
Montebello, CA 90640
(213) 726-0303
Receivers, turntables,
speakers, CD players,
tape players

Technics
One Panasonic Way
Secaucus, NJ 07094
(201) 348-7000
Audio rack systems, audio
component systems

Teknika
353 Rt. 46 W.
Fairfield, NJ 07006
(201) 575-0380
Audio components

Thomas
5-D Joanna Ct.
East Brunswick, NJ
08816
(201) 238-6862
(800) 524-0160
Stereo systems

Toshiba
82 Totowa Rd.
Wayne, NJ 07470
(201) 628-8000
Receivers, turntables, tape
decks, equalizers

Welton
2533 Royal Ln., Bldg. 505
Dallas, TX 75229
(214) 243-5602
Audio entertainment
systems

Windsor
131 Executive Blvd.
Farmingdale, NY 11735
(516) 694-1400
Specialty audio
products

Yorx
405 Minnisink Rd.
Totowa, NJ 07512
(201) 256-0500
Tape players, turntables,
equalizers, receivers,
speakers, rack systems

continued from page 41

definitely more appealing to customers than the metal-finish look of the 1970s. "High tech, space age, that's what the customer wants," says Nancy Wills, owner of Mrs. T's Rentals in California. "They like as many lights, bells, and whistles as they can get on a system," she adds. Push-button circuits are more popular than knobs as well as equalizer options with bass, treble, and tone controls. Just about every brand on the market offers this look with Fisher, Marantz, and Kenwood among the most popular among those dealers surveyed.

The days of the TV cart and stereo

rack are gone. With customers renting high-end systems also going to full term more often, they want the cabinetry to be of higher quality, too. Why rent a \$1500 system that is surrounded by a \$100 cabinet? One northern dealer said, "The customers who rent our high-end system envision a 'media room' in their home with all the audio and video equipment combined."

The old RTA (ready-to-assemble) cabinetry is taking on a new look. Real pine and oak wood cabinets with rounded corners and decorative carving are taking its place. Black shelves with a high-tech look are in, according to dealers, as well as white formica

cabinets.

Cabinets are taking on a new focus with less emphasis on utilitarian design, thus becoming more of a fashion statement and an integral part of the home furniture theme. For dealers, that may mean a higher rental rate. It may also mean a point-of-purchase display opportunity to rent the entire system as a stylish addition to the home of the up-scale renter. As Daniel Baldwin says, "Appearance sells the system as much as the sound does." **PR**

Samantha Sipowicz is advertising director of PROGRESSIVE RENTALS magazine.

WHAT DID HE SAY?

continued from page 29

the right people. Our most eager audience, to be sure, has been people looking to be in the business, rather than customers looking to use the business. We are working to enhance consumer awareness of the place of rent-to-own in today's economy.

The APRO executive committee recently voted to close APRO seminars and the APRO convention to non-APRO members. You can't be a member of the association unless you have been in the rent-to-own business for 90 days. Therefore, information about how to run the business is going to be harder to come by for newcomers than it ever used to be.

I hope that this does not mean APRO will be any less of a force in the industry than it has been. It is accurate that APRO represents only about half of the TV and appliance rental-purchase dealers in the country. We do clearly represent the most responsible half, and all any of us can do is to work hard to bring the other half along, hoping in the meantime that they do not blunder so badly that they hurt the rest of us.

We will continue to recruit rent-to-own dealers around the country to join the APRO ranks. We will never get them all in the association, but we are going to try. I do not think this policy is regressive.

One difficulty with relations between the tool and equipment rental industry and the TV and appliance rental industry is that, to date, the information exchange has been one-way. Tool and equipment rental dealers have been curious about our industry and have tried to learn more about it any way they can. I am not aware of any substantial inquiries in the other direction. To date, TV and appliance rental dealers have expressed little curiosity about equipment rentals. If Mr. Novoselski is correct, we might suppose that his industry will welcome TV and appliance rental dealers with open arms when they inquire how best to rent tools and equipment.

To the extent that APRO has given the appearance of recruiting the competition, a better understanding of APRO goals is in order. I do not personally think that has ever been the case, and we at APRO have no desire to inflict harm on any of our members. That would hardly keep the dues checks coming in. APRO has and will continue to recruit members from within the

rent-to-own community. The new policy adopted by the executive committee should convince members that we are serious about wanting to help them, and to the extent the law allows, to protect them. All we would ask in return is that members continue in the "progressive" tradition we have helped establish. Help this industry continue to establish a tradition of which we can all be proud. Continue to run imaginative and tightly controlled companies that show profits for the owners; continue to offer customers good value for their money; and learn, as we all have done, to take occasional potshots in stride. **PR**

Edward L. Winn III is the general counsel of APRO and a frequent contributor to PROGRESSIVE RENTALS.

TAX REFORM

continued from page 23

Alternative Minimum Tax For Individuals—This has been increased from 20 percent to 21 percent. The amount subject to exemption is reduced by 25 percent of the alternative minimum taxable income in excess of \$150,000 for married filing jointly (\$112,500 for single).

New Tax Rates For Trusts And Estates—Effective in 1987, the rates are:

Taxable Income	Rate
0-\$5,000	15%
Over \$5,000	28%

Note: 15% bracket phased out between \$13,000 and \$26,000.

As you can see from the highlights of the Tax Reform Act, this is a complex bill. We have only highlighted the major changes. Some six million low-income Americans will enjoy the elimination of even filing 1040s. The remainder of our society will understand why it is now called the Internal Revenue Code of 1986, as the 1954 Code has been virtually redone!

Over the coming months we will see Congress write an extensive technical correction bill. We recommend that everyone take an active part in voicing to the elected officials their feelings about the provisions of this tax reform act. **PR**

Edward Gardner is a certified public accountant with tax experience in two national accounting firms. Mr. Gardner heads his own accounting firm in Houston, Texas.

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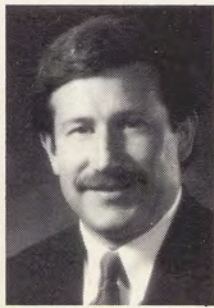
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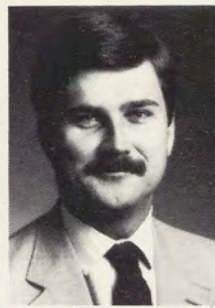
Lindblom



Shockey



Hauch



Beale



Forrest



Dabrik

Whirlpool Leasing Services, Inc., has established an insurance financing division. Named to the position of staff vice-president for the division is **Eric W. Lindblom**. General manager is **Joseph G. Shockey**.

Seajay Investment Group, Inc., as part of the company's expansion program, has relocated three employees to market manager positions outside the state. **Russ Blackford** has moved to Sacramento, California, from central Texas, **Dean Jenkins** has been transferred to central Florida from west Texas, and **Bill McCrae** has relocated to Baltimore, Maryland, from Austin, Texas. Diversification of the company's economic base to reduce its dependency on the oil industry was cited as reason for the expansion program.

Whirlpool Acceptance Corp. has promoted **Daniel A. Hauch** to the newly created position of director of administrative services. Hauch joined Whirlpool 28 years ago as a mail room and office services clerk.

The 500th franchised **ColorTyme** location has opened in Muskogee, Oklahoma. **Truman Heddins** of Grand Saline, Texas, is franchisee of the store. Heddins, with other family members, operates 14 ColorTyme franchised locations in Oklahoma, North Texas, Louisiana, and Arkansas.

ColorTyme locations are now open in 41 states including Alaska and Hawaii. According to **Willie Talley**, president and chairman of ColorTyme, the company opened 80 new locations in 1985. Sixty-two new stores have been opened so far in 1986, a more than 15 percent increase over the previous year. Talley says

that by 1991 ColorTyme plans to have 2,000 rent-to-own stores operating throughout the U.S.

George Fink is the new executive vice-president and chief financial officer of **Remco**. He comes to the company from Arthur Young where, as a partner, he had handled Remco's accounting and consulting since 1983.

Also at Remco, **Robert Harris** has been appointed vice-president of human resources and **Victor Beale** has been promoted to marketing analyst, a newly created position in the company's marketing department.

Akai America announces a new posting for **Bob Forrest** to California sales manager. Formerly Akai's audio and video product manager, Forrest has been with the company for six years.

Borg-Warner Vehicle Leasing has

appointed **John P. Majewski** to the position of major account representative. Majewski will be based in Schaumburg, Illinois, and will be responsible for sales development in the company's midwestern regions.

Whirlpool has promoted **Casey Dabrik** to director, contract procurement. A 13-year employee of the company, Dabrik was previously director of regional procurement. Also at Whirlpool, **Richard S. Stauffer** has been promoted to the new position of general manager, original equipment manufacturer sales. **PR**

Editor's Note: Corporate Moves welcomes company news from all dealers, distributors, and manufacturers involved with rental-purchase. Send information (with photos) to: PROGRESSIVE RENTALS, 1866 InterFirst Tower, Austin, TX 78701.

MANUFACTURERS' NEWS

Zenith won special recognition and an Emmy award from the National Academy of Television Arts and Sciences for the company's development of stereo TV technology. Zenith's multichannel television sound (MTS) stereo system was cited as a significant achievement in television engineering.

Another Emmy award went to Panasonic for outstanding achievement in engineering development. Panasonic's award came for its role in the "manufacturing and marketing of a consumer video tape recorder making it possible for the consumer to time-shift a recording and viewing."

Sales of home video products increased across the board in August, according to the Electronic Industries Association (EIA). Nearly 1.4 million color TV sets were sold to dealers during the month, according to the group's statistics, with sales up 6 percent for the first eight months over the same period of 1985. A jump of 44 percent was reported for black-and-white TVs (year-to-date 9 percent) with a year-to-date increase of 22 percent for projection TVs. VCRs were up 7 percent year-to-date; camcorders are running a phenomenal 328 percent ahead of 1985.

Increased Profits Through Audio

Audio business is up. That in itself is good news. What makes it even better is that the growth is due in large part to increased movement of complete audio component systems, particularly step-up systems in the mid- to high-price range. Since this is where the higher profit potentials are found, not only is volume up in the audio category, but more important, profits are up.

There are two major reasons for the surge in audio rentals and sales:

(1) Technologies once found only in top-of-the line systems are now included in moderately priced models. This has provided the stimulus for new customers to enter the audio market as well as a reason for existing owners to upgrade. The desirable features cited most often by consumers: compact disc players, remote control capability, cassette dubbing decks, and expandability into an audio video system.

(2) Perhaps the strongest reason for audio's growth has been the "stereozation" of video. New audio systems are being built with video in mind. Customers are using these systems to

EVEN IF THE AUDIO SYSTEM IS ALL THE CUSTOMER ENDS UP WITH, YOU WILL HAVE PLANTED THE SEED FOR A POTENTIAL FUTURE UPGRADE.

capture the full sound potential from stereo TV broadcasts and stereo or hi-fi video cassette recorders. This has resulted not only in consumers selecting audio systems to enhance their existing video products, but also (and ever increasingly) the acquisition of complete audio video systems.

In order to fully take advantage of this boost in audio business, progressive rental dealers will want to creatively

merchandise the product and thoroughly train their sales force.

Merchandising Audio

You need to look like a successful audio dealer in order to be successful. This means you need to carry an assortment of product that allows customers to compare different brands as well as step-up progressions within each brand. Expecting today's rental customer to make a major system commitment from a selection of one or

YOU MAY EVEN FIND YOURSELF RENTING A TV OR VCR YOU DIDN'T EXPECT TO, PERHAPS EVEN THE ENTIRE AUDIO VIDEO SYSTEM.

two models would be like purchasing a pair of shoes from a store carrying one or two styles.

By grouping the systems in a good-better-best format, salespeople can demonstrate step-up features quickly and easily. When those features are side by side, the customer will be more likely to take advantage of the additional benefits a step-up model will bring them.

When possible, show each audio system by itself and also as part of an audio video system. If this isn't possible, opt for the audio video display approach. Demonstrations of audio systems should be conducted on the audio video version. By using a good hi-fi demo tape, you'll not only be able to demonstrate the audio potential, but show the system's compatibility with new stereo video products.

For some customers, this may be their first introduction to the stereo TV concept or stereo video. You may even find yourself renting a TV or VCR you didn't expect to, perhaps even the entire

audio video system. Even if the audio system is all the customer ends up with, you will have planted the seed for a potential future upgrade.

One neglected area of merchandising is demo tools. A carpenter or plumber invests in a set of tools to do their job properly. Salespeople, on the other hand, rarely invest in a good set of "tools" for their trade. A couple of good hi-fi video tapes (replace them when they become grainy), compact discs, and cassettes will allow products to be demonstrated properly. Demo tools that make the right impression make the sale.

Train - Train - Train

There are an amazing number of innovative audio and audio video technologies. Those new features have aroused consumer curiosity. In order to turn that curiosity into desire, those key items must be demonstrated.

It's a fact that people (salespeople included) avoid discomfort. Those innovative technologies are just as new to the salesperson as they are to the customer. Unless hands-on training is scheduled to force salespeople to become familiar with these features, they will lack the confidence necessary to demonstrate these items on the floor. Training breeds familiarity. Familiarity overcomes intimidation. When intimidation is overcome, it is replaced with confidence and enthusiasm. The final results are more professional presentations and the sales that accompany them.

By aggressively merchandising audio products, understanding and promoting the audio/video technologies, and thoroughly training the sales force, you will be able to fully take advantage of the profit opportunity that audio products offer.

Dick Hultine is national sales manager for Fisher Corporation, Chatsworth, California.

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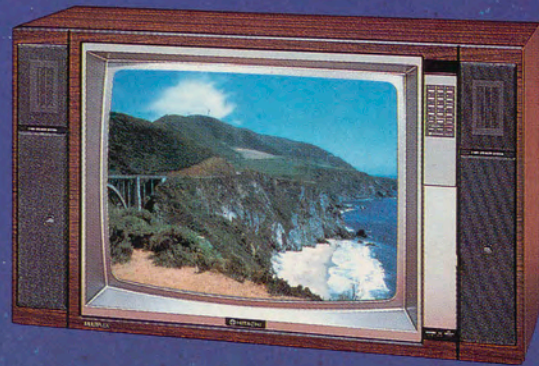
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For more information regarding rentals call Eric Kamayatsu (800) 262-1502 inside Calif. (800) 421-1040 outside Calif.

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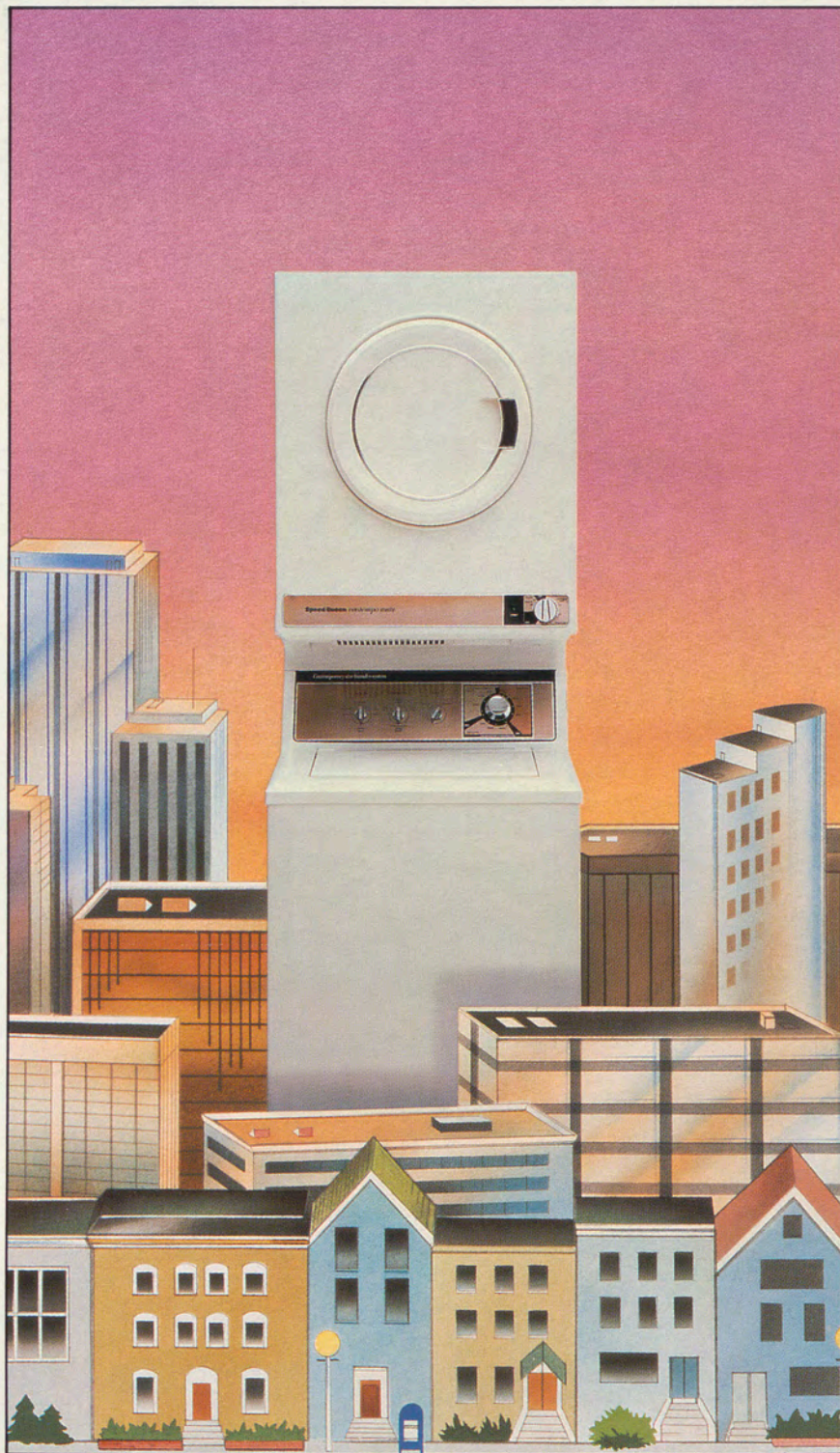
Hose kits* allow sink hook-up, without special plumbing fixtures. Both the washer and dryer operate on 110V. And the dryer requires no external venting. So, installation is never a problem.



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