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Video Rentals

Controlling The Market



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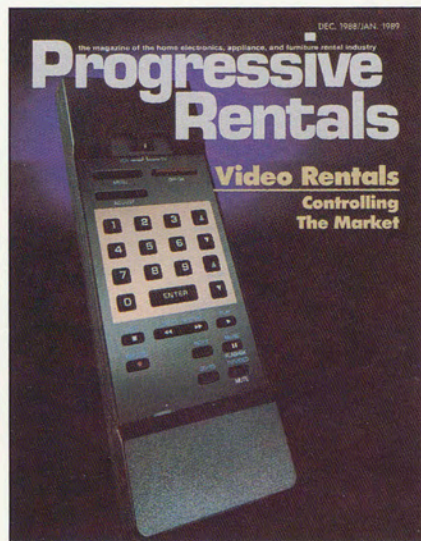
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Progressive Rentals

VOL. 8 NO. 6

DECEMBER 1988/JANUARY 1989



ON THE COVER: Success in TV rentals today means pushing the right buttons to control your market. Feature begins on page 18.

COVER PHOTO BY:
Scott Hill, Austin

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Dealers in small to medium-size companies talked to our writer about what it takes to build BOR in television rentals. Personnel training and regular, well-targeted promotions were among the factors that most affect their video accounts. They also had some pointed suggestions for suppliers to the market.

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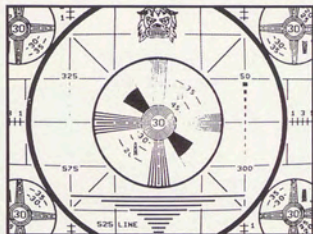
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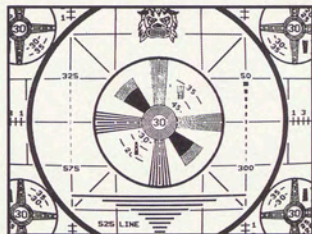
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MASTERPIECE TELEVISION VS. ORDINARY COLOR TV.

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Conventional television picture tube.
265 - 330 lines of resolution.



The Masterpiece Blacktron Picture tube.
560 lines of resolution.

These are resolution charts. Engineers use them to evaluate a television set's most important feature: picture quality. It's quite a test. A test our Masterpiece high resolution television sets pass with high grades. Here's why:

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There are 6 models in the Masterpiece Series; 20" to 30" screens. The 27" Masterpiece 2770 CPX with high gloss black lacquered cabinet is shown here. Picture simulated.

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PRESIDENT'S VIEW

The Winds of Change

You have a new writer for this column because Charles Stuckey has chosen to take a new direction with his life. I am sure you all join me in wishing him the best in his new venture.

The executive committee is meeting as I write this to screen applicants for the job, so I can offer no insight at this time on who will replace Charles as executive director. Ed Winn III is filling the slot pro tem.

APRO has taken quite a large step these last few years in identifying its role as a true national association, so our new director must possess a background in being able to handle all the complex issues that a rapid growth industry in rather turbulent times must address. As soon as we find that person, we will make you aware of it and give you all the details of their background.

Your Board members are still working hard not only to support the LDIF state meetings but also the growth in membership. We intend to earn your respect through our efforts to provide you more information and services.

I hope that each of you get the opportunity some day to visit with members of the APRO headquarters staff or, better yet, visit the headquarters in Austin. Many of you may have some idea they work in palatial surroundings in a very high rent office. That is not the case. The rent is \$2300 a month. The offices are small but adequate for current needs, the office equipment barely adequate at our present size and services.

The best part of all is the staff's attitude. These people truly want to help you, they want to give you better service, they want to know what services you want APRO to provide.

Only with that attitude on their part and the Board's part can we expect each of you to go out and get one new member to join APRO this year. Please make a note to contact one new member candidate and sell them on APRO as a responsible association working to provide a vehicle to get legislation passed, seminars to help us all be more professional and thus successful, and the provider of many other valuable services.

The staff looks forward to seeing as many of you as possible at the Atlanta Furniture Market January 28 through February 1. Be sure to see your brochure showing the seminars and special areas to watch. One special event is a Lee Greenwood concert, free! We have hotel rooms reserved at a discount rate with free transportation to the Market Center, a hospitality suite, and more. (See page 28 for more details.)

And just wait until you see what we've done to make the Washington D.C. convention more affordable and enjoyable as a vacation/convention site for you and your family.

APRO is here for you, please use us and support us.

R. L. (Dick) Grauel
APRO President

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Association of Progressive
Rental Organizations (APRO)

Editor
Frances Knight
Executive Editor
Edward L. Winn III

Contributors
Susan K. Elliott
R. L. Grauel
N. Jack Rice
David Timmons
James D. Walker Jr.
Edward D. Wilson
Edward L. Winn III

Advertising Manager
David Timmons

Circulation Manager
Kayte Bean
Word Processing
Linda Buerger
Shelley Martinek

Production Coordinator
Vickie Kirkland
Mechanical Art
Susan Long

Editorial and Advertising Offices
2028 E. Ben White Blvd. Suite 200
Austin, Texas 78741
(512) 447-0333

APRO Officers & Directors
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R. L. "Dick" Grauel

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Progressive
Rentals

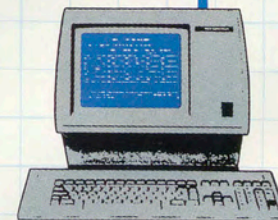
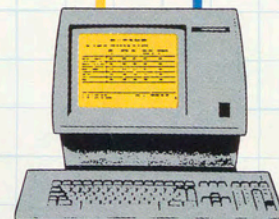
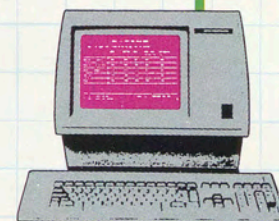
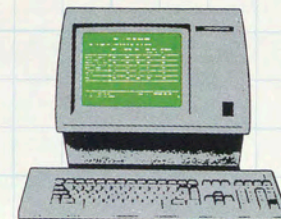
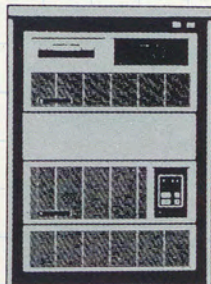
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**Les Feldser
President**

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AT YOUR LOCATION

MESSAGE



Reaching Our Customers

I have seen it twice now—once in *The Wall Street Journal* and once on “60 Minutes” two weeks ago—that 20 percent or more of American households have no banking relationship—no checking or savings account. I must say that the figure astounded me.

Mike Wallace used the figure at the American Bankers’ Association Convention in Hawaii to flay that industry as being unresponsive to a large segment of the population. My heart went out to the bankers, as it does to any group that incurs the wrath of the press. But as a rent-to-own lawyer, my spirits soared because all of those people—roughly 30 million American households—are all potential rent-to-own customers.

You see, I already knew from U.S. Labor Department Statistics that 55 percent of the work-force is being paid weekly. Together those numbers mean tens of millions of Americans are getting paid on Friday and living out of the cash in their jeans until the next Friday. They are probably spending all they earn, maybe more, since they have no convenient mechanism for saving.

Not surprisingly, they want the same things that everybody else wants. They see the same ads and have essentially the same “hot buttons” as the rest of us. What they don’t have is ready cash in amounts sufficient to pay for major household purchases.

They may or may not have credit. They may be self-disciplined and pay their bills on time, but they can’t list a bank reference on a credit application. Even when they do have credit, a large down payment of \$200–300 may play havoc with their weekly budgets.

So what should these people do? The people who have anointed themselves as their champions—this country’s “consumer advocates”—argue that

these people should simply do without. Their thinking is that there should be laws about how these people spend their money, which laws would exclude renting TVs. With such laws on the books, these people would presumably dress better, eat better, spend money on books or education in some form, and live altogether better, more productive, and happier lives.

We, of course, know better. We know that even if these people couldn’t rent TVs, they would spend all of their money, and not on things that the social engineers would label suitable expenditures. They would pay rent, eat the foods they were raised on, and probably as much fast food as the money allowed, and spend money on the other necessities of modern 20th century life. Anything extra, they would fritter away.

We think that they ought to rent TVs, appliances, stereos, VCRs, furniture, or whatever else their hearts desire. We do not think for a moment that if they couldn’t rent a nice big color TV, for example, they would necessarily go spend that money on vegetables or in any way be happier people. In fact, if the consumer advocates were to talk to a rental customer with a houseful of young kids, the customer would likely say that but for the nice big color TV, her life would be a lot unhappier—vegetables be damned.

This is the debate that has raged for years, and will not go away soon.

What concerns me about the statistics quoted is whether the rent-to-own industry has attracted all of the customers it can, and I am sure that it has not. There is still a perception in many markets that the business is somehow unsavory, and that keeps a lot of people from our doors who would otherwise be ideal rental customers.

We have come a long way but have

a long way to go. I suspect that we will have some rent-to-own marketing breakthroughs in the months ahead. I know people who are already looking hard at how this industry has presented itself to the public over the years. There is common agreement that more can be done.

Nor is the industry limited by any stretch to the bottom 20 percent of the economic ladder. IBM, Xerox, and every other major supplier of business equipment offer lease-purchase plans with success to all of their customers, many of whom could write checks for copiers and fax machines if they chose.

It is our challenge as an industry to explain the program better than we have done to date. It is an easy thing to criticize the industry and make it look unattractive. “100 percent interest” is damning criticism, and although manifestly untrue, the explanation is more complicated than the attack.

They are out there, our rental customers, at least 30 million of them. Many have been misled about the program. There may even be a few who have never heard of the concept, although I don’t know where they are. I cannot help but think if we touched those people in ways they haven’t been touched, more of them would come visit our stores.

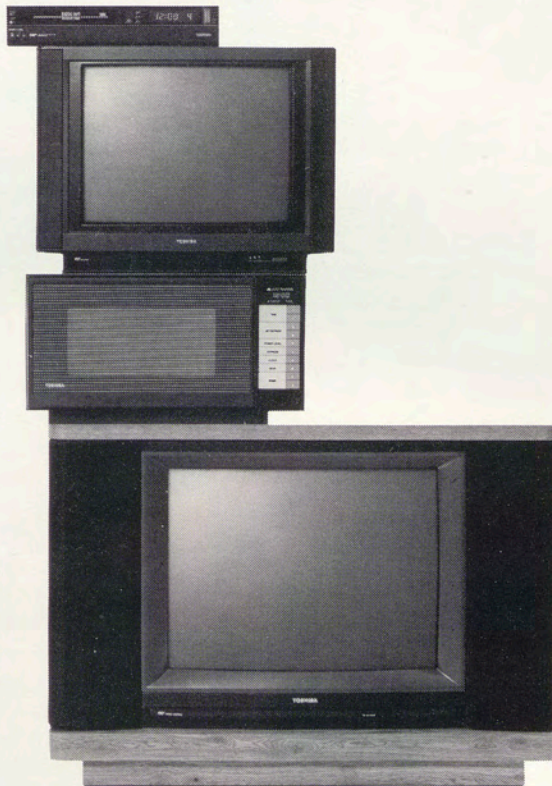
If we could get them in the store, most of us think we could sign them up for some product. I think all the time about how to make that happen. I assume that’s what you are thinking about, too.

EDWARD L. WINN III
APRO General Counsel

Toshiba announces a rent increase.



1987



1988

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An Open Letter

By James D. Walker Jr.

The following is an open letter to the National Consumer Law Center, NCLC Reports, 11 Beacon Street, Boston, Massachusetts, in response to information that appeared in that newsletter.—Editor

Dear Sirs:

In your recent issue of the National Consumer Law Center Reports, Volume 7, July/August 1988, you suggest to your readers that the "Bankruptcy Court may be an excellent forum for consumer advocates seeking a remedy for some of the worst abuses of the rent-to-own industry."

In your article you instruct your readers to note that the automatic stay in bankruptcy prevents "harassment . . . of delinquent debtors." You correctly point out that rent-to-own property in possession of the debtor becomes property of the estate upon filing bankruptcy. Equally correct is your notation of the remedies available for a willful violation of the automatic stay.

In equipping your readers to do battle in this forum, you have warned that the "creditor" is likely to argue that the lease agreement is an executory contract and that the debtor's remedies are limited to assuming or rejecting that contract according to its terms. You urge that the reader should argue instead that the contract creates a secured debt giving rise to numerous remedies for the adjustment of such debts. You correctly note that a debtor in a Chapter 7 bankruptcy can redeem property from

If you must equip your readers to mindlessly charge this nest, it is only fair that you should warn them of the pitfalls they can expect.

a secured creditor by payment of the fair market value of the property in cash. You have correctly noted that a debtor in bankruptcy in a Chapter 13 case has the right to modify a creditor's rights, cure a default, and limit the creditor's secured claim to the value of the collateral.

You owe it to your readers to supply them with more current information. These issues have been debated and resolved in most jurisdictions. It is true that rental dealers are likely to argue that rent-to-own transactions are executory contracts because they have been so construed by several prominent bankruptcy authorities. [*In re Huffman*, 63 B.R. 737 (Bkrcty. N.D. Ga. 1986) and *In re Armstrong*, 4 B.R. 94 (Bkrcty. W.D. Tex. 1986).]

The legislatures of 18 states have adopted laws proposing to regulate this industry and, in many cases, specifically negating the idea that these transactions are disguised credit sales. For example, the law in New York provides in Chapter 41, Art. 11, Section 500.6 as

follows: . . . An agreement that complies with this article is not a retail installment sales contract, agreement or obligation as defined in this chapter or a security interest as defined in subdivision thirty-seven of section 1-201 of the uniform commercial code.

To those who might be unfamiliar with the mechanics of a rent-to-own contract, you should explain that there is no obligation between the dealer and the customer beyond the immediate weekly or monthly rental term. While you have correctly noted the existence of certain remedies available to debtors as to their creditors, you have failed to fully inform your readers as to the criteria by which one becomes a creditor. [*Elcan Investments Inc. vs. Kirk*, 187 Ga. App. 676 (1988).] To occupy such a status, one must be owed an enforceable debt obligation.

You have failed to note for your readers that a rental dealer has no right to require the debtor to do anything more than to return the property at the end of the immediate weekly or monthly rental term. To keep the property beyond that term is a matter within the sole discretion of the customer. Only in the case where the customer retains the property beyond the term does the rental dealer acquire any creditor status. That status is strictly limited to the period during which the debtor retains the goods without renewing the rental agreement. Such a circumstance is analogous to the holdover tenant in real estate law.

continued on page 12

WAITING ON TABLES?



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continued from page 10

If you wanted to be helpful, you might cite the unpublished decision of the Sixth Circuit in the *Puckett* case. [*In re Puckett*, No. 87-5398 (6th Cir. 1988).] It is the most significant decision in support of your view. It is understandable that you might choose to avoid the citation of that case since its facts are readily distinguishable from the typical rent-to-own transaction. It is unlikely that any of your readers will encounter a situation where the facts of the transaction are analogous to the *Puckett* case.

To provide any truly meaningful help to your readers, you should explain to them how they carry the secured transaction argument to its logical conclusion. Lawyers who have followed your line of reasoning have had difficulty explaining to judges how the provisions of the Uniform Commercial Code at 9-504 can be construed in the event of

a foreclosure of the alleged creditor's security position. To what account must the proceeds from the sale of the goods be applied? The debtor has not chosen to renew the contract. Consequently, he has no debt to which the proceeds from the sale might be applied. Such an application is necessary in order to determine whether the debtor is entitled to the refund or, instead, the creditor is entitled to a deficiency claim. Following your advice could prove to be embarrassing if your reader appears before a judge who might be otherwise inclined to accept your argument.

These arguments have been resolved by most of the courts and legislatures in this country. It is irresponsible of you to send your faithful readers tilting at these imaginary windmills. They have every right to believe that your suggestions are tested and proven and not just worn-out fragments of your stubborn

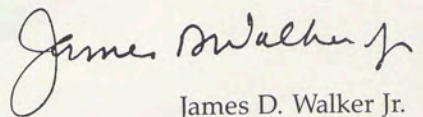
opposition to this worthwhile industry.

If you must equip your readers to mindlessly charge this nest, it is only fair that you should warn them of the pitfalls they can expect. In addition to the various decisions that have finally renounced your "ideas," there is also to be considered Bankruptcy Rule 9011 and Rule 11 of the Federal Rules of Civil Procedure.

As you are most surely aware, these two rules prohibit the advancement of a legal position that is not warranted by existing law or proposed in good faith for the modification of existing law. These rules also prohibit lawyers from using litigation to harass another party, to cause delay, or to increase the cost of litigation. Both rules provide for sanctions in the case of a violation of the rule.

You have suggested that the Bankruptcy Court might be available to prevent "harassment." Certainly you will be very likely to define harassment as the effort of a rental dealer to recover possession of his property in the case where the debtor chooses to discontinue the making of payments.

If, instead, the court is inclined to construe that activity as a legitimate undertaking that is consistent with the agreement between the respective parties, your bankruptcy petition and the use of the automatic stay you have encouraged is very likely to be construed as nothing more than an effort to cause delay to the rental dealer in the exercise of its rights under the rent-to-own agreement. Surely you will want to advise your readers as to the hazards that are attendant to the suggestions you have advanced in your publication.


James D. Walker Jr.

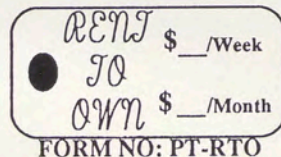
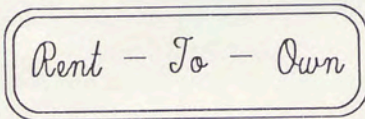
Editor's Note: LEGAL is a regularly featured column written by James D. Walker Jr., of Surratt, Walker, Creson & Colley, for rental dealers with legal questions. Please address questions for this column to James D. Walker Jr., Surratt, Walker, Creson & Colley, Box 1497, August, GA 30903.

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How to Get More Bang From Your Advertising Buck

Planning is everything when it comes to promotion

By N. Jack Rice

Advertising is simply salesmanship multiplied. An advertisement tries to get somebody to rent or buy something . . . to spend money in your store. You attract the customer's attention, tell him what you have to offer, and cause him to come to your store. It is salesmanship multiplied because you do it on a mass basis, with your selling message, multiplied by the printing press, radio or television. And while advertising is more art than science, there are techniques you can learn to improve your ads.

Why Advertise At All?

The question is not should you advertise, but how should you advertise? Consider one definition of advertising: to call favorable attention to your organization and what you have to offer.

If your market were small enough that everyone knew you personally, and if you had no competition, word of mouth and your reputation might be enough to bring everyone to you. Unfortunately, few rent-to-own stores stand so alone.

Advertising tells people who you are and . . . how you are changing to meet their needs.

And even if they did, the market is constantly changing. Loyal customers move away or die; new people move into town; people's needs and interests change. Advertising tells people who you are and, through the merchandise you advertise, how you are changing to meet their needs.

Advertising's Objectives

Your advertising has two objectives:

- obtain a share of mind—the people who prefer your store to others offering similar merchandise;

- obtain a share of market—the people who actually do business in your store.

At any one time, obviously, there are more people who prefer to shop at your

store than people who actually shop. The non-shoppers are important to you because if one suddenly needs a television set, stereo or appliance, he will think of you first. Your advertising must do two things—increase your share of mind and maintain, or improve, your share of market.

Advertising is communicating, and is only one aspect of a successful rent-to-own store. A good ad may bring a customer to the store, but if you do not have stock on hand, or if your salespeople are not well trained, he will not place an order; your ad is wasted.

First you have to ask yourself: Who am I trying to reach? Then you have to ask: How can they be contacted? Through newspapers? Television? Radio? By mail or in person? If you want to reach working men and women, for example, you don't run your TV commercials during weekdays.

Finally you ask: How does what I offer meet their needs and desires? How can I speak to the interests of my audience? Are they primarily interested in price? Or in weekly payments? Or in helpful salespeople? Or in a complete

continued on page 16

YES Gordon Richards doesn't have much time for clocks. He says life isn't an event, it's a process. So he doesn't like to measure it.

Eccentric, perhaps, unless you've gone through his management training program. Or, you're a Transamerica Commercial Finance customer.

"Look at business. It keeps changing. That's why I refuse to give anyone pat answers. There aren't any. But I can teach people to figure things out for themselves. To keep going at a problem, head on. Failure's simply the product of no longer trying ideas."

Gordon unleashes the "yes" spirit in people; that drive that's figured out the stickiest inventory financing, or made a sale where none seemed possible. A company credo he's personally helped kindle in over half the managers and employees, including today's President and every top executive.

Achievements that truly deserve a hand. Some, Gordon would hope, will earn just a few minutes of your time.

1-800-527-4049 (In Texas
1-800-442-3337).

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continued from page 14

merchandise selection? You target your audience when you know what it wants and you know how you can satisfy those wants.

Studies show that roughly 20 percent of the people in the rent-to-own market will never come to your store. Another 20 percent are ready to do business with you now, and almost any effective advertising will pull them into your store. The remaining 60 percent are not ready right now, but will be in the next few months. You want your ad to reach these people, to gain share of mind, so that when they are ready, they think of you.

Many people believe there is no real difference between products or stores. Advertising can make that difference. It can also:

- Increase store traffic.
- Acquaint customers with new products or brands or both.
- Promote special events.
- Keep the business's name before the public.
- Tell customers about special services you offer.
- Introduce new employees.
- Tie in with a national promotion.
- Improve cash flow.

- Give special data on products or services.

Seasonal Business Patterns

When customers are ready to rent, ask them to rent. The most effective advertising (that which produces the most results or profits) offers customers what they want when they want it.

You target your audience when you know what it wants and you know how you can satisfy those wants.

Since people rent according to clearly predictable patterns, you can set up an advertising program in which you support every opportunity with the advertising it deserves. In other words, you should spend more of your advertising dollar during the better business months and not try to spend it evenly throughout the year. This is the first

step toward developing an advertising plan.

When properly applied, an organized advertising plan will help you to:

- Buy merchandise in advance.
- Alert everyone in the store to the plan.
- Create better, more effective ads and commercials.
- Set up displays well before the ad breaks.
- Develop a step-up strategy.
- Have related items and impulse items displayed with the advertised specials.
- Price everything.
- Make better media buys.

More Advertising?

Keep the following factors in mind when you plan your advertising budget:

- Stores in less favorable locations need more advertising than those in high traffic locations.
- Stores that are new or expanding need more advertising.
- Stores that have strong competitors usually need more advertising.
- Stores stressing price appeal usually promote more heavily than those stressing service or luxury.
- Special dates and events offer additional promotional opportunities—an anniversary, a new store opening, a change in management and the like.

Obviously, you still have to decide what to advertise each month and where to run the ads. Your goal is always the same—offer customers what they want when they want it.

PR

N. Jack Rice is senior consultant with the Percon Group, a national organization of trainers and speakers. His broad range of experience in retailing and association work includes chairing NARDA's Institute of Management and serving the National Retail Hardware Association as director of education and member services.

What you have to say is important to us . . .

Write to the Editor,
PROGRESSIVE RENTALS
2028 E. Ben White Ste. 200
Austin, TX 78741

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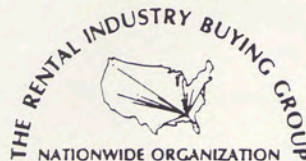
"We joined TRIB because we felt it was the best way for an independent dealer to successfully compete with the major chains . . . We get so much more than just great pricing. We also get new marketing and merchandising ideas as well as new product categories."

—Dan Trudell
Laser Rents & Sells

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A choice of these nationally advertised brands, Sylvania, Magnavox, Philco, from a worldwide leader in consumer electronics: Philips.

In addition to quality portable and console televisions, you get state-of-the-art camcorders, VCRs, projection TVs and audio products.

But that's just the beginning. We also offer quick delivery and a national service network to stand behind our products.

So choose the company that gives you a choice. Philips.

For the dealer or distributor nearest you, call Ken Gay at 615-521-4711.

Philips Consumer Electronics Company

CONTROLLING The Video Market

By Susan K. Elliott



You have to push the right buttons

Ever since the early 1950s, when President Eisenhower delayed an address to the nation rather than compete with America's favorite television program, "I Love Lucy," television has had a profound influence on America's social and buying habits. Three and a half decades later, television still occupies a major position in our lives and constitutes a staple item for most rent-to-own dealers.

High tech innovations have relentlessly changed the faces of the televisions available today, enhancing them with stereo, wide screens, remote control, and the ability to control one's own programming through videocassette recorders and pre-recorded movies—improvements that keep Americans coming back to try the newest models.

Among the dealers we contacted for this article, television as a percentage of their overall BOR ranged from 25 to 50 percent and most reported their rentals in this category holding steady or showing only modest increases as compared to a year ago. Better promotional campaigns and general tightening of business procedures boosted revenues for others by as much as 25 percent during 1988.

Harold Hutchins, president of four American Rent to Own stores in Florida and Georgia, notes that his rentals of portable TVs are about the same, while

Television has had a profound influence on America's social and buying habits. It occupies a major position in our lives and constitutes a staple item for most rent-to-own dealers.

customer interest in larger consoles and 25-inch sets has declined. He attributes this shift to the appeal of newer type cube styling for portables and says, "The way people are setting up things in their homes, they're not going after the large TVs as a major piece of furniture anymore."

Hutchins hopes to see a turnaround in this trend because, he says, "We need the business on the larger units, simply to raise our average dollar per unit. In other words, if we go strictly with the portables and try to promote those because they're selling best, then our average dollar per unit is going to decrease, so we definitely need to do some promotion on the larger TVs."

"I think what we are going to do is merchandise more heavily the 25-inch cube with stand, or the 25-inch portables and 25-inch stereos (meaning 25-, 26-, and 27-inch models). In other words, get away from the traditional styling console TVs and go to the more high-tech styling," says Hutchins.

Promotion Helped

One of the dealers who did increase TV rentals during 1988, Frank Felty, attributes his 25 percent increase to added emphasis on promoting televisions and videocassette recorders. President of Tel-Star Enterprises, which owns 18 stores in Virginia and Tennessee, Felty says, "We've pulled in our horns here."

The company has targeted "any loose ends," and "watched our advertising dollars real close." Felty also credits advice he has received at various APRO seminars for making "a world of difference. To me it's been a major help in tightening up and not foolishly wasting advertising dollars. We zeroed in on a few basic things that have really skyrocketed for us."

Specifically, he found suggestions for advertising at certain times of the day and month as being most helpful.

Most Profitable Mix

Mississippi dealer Deborah Carpenter, co-owner with her husband Don of three Paine Carpenter Rental stores, has been taking a reverse trend in her main store in Natchez—diminishing emphasis on video equipment to boost appliance rentals.

"We make more money on appliances than we do on TVs," says Carpenter. "We have more service calls and more service on TVs and VCRs than we do on laundry equipment. We've begun to figure out over the past year that appliances are much more cost effective for us than are electronics products, so we try to push them more at this store. If you came into this store you would think automatically that you were in an appliance store. Appliances are our bread and butter."

Nonetheless, her two smaller stores contain video movie departments with 3,000 titles each and complete selections of televisions and VCRs, a balance that Carpenter plans to continue.

Most Popular Models

In the "most likely to be rented" category, dealers named their 19- or 20-inch televisions with remote control, renting at \$9.50 to \$16 a week, or perhaps \$58 a month. Only one dealer said that a 25-inch, non-remote console is his stores' most popular unit.

Frank Felty says he rents "more non-remotes than remotes. It's very odd, because everybody I talk to in the industry has more remotes, but we rent more non-remotes. Don't ask me why. We put in remotes, and they go out the door, but we rent the non-remotes 2 to 1 over remotes."

Keeping Up With Remotes

Other dealers reported popularity of remote control TVs ranging from 70 to

100 percent, and have come to accept the problems associated with retrieving the devices. Says Harold Hutchins, "We don't get them back all the time. I think it's about 75 percent the driver's fault. We're not quite to the point, but we've emphasized to our drivers over and over that we're going to start making them responsible for a portion of the cost if they don't pick up the remote."

On the subject of remote controls, Ray Peel, owner of 10 Color Vision Rental System stores in a 150-mile radius of Abilene, Texas, says, "We've taken steps to fix problems with getting remotes back, but we haven't fixed it. We've had account managers pay for them, which didn't work, and we've never done anything that's really been successful."

"Our account managers never had the money to pay for them with," says Peel, half joking.

Deborah Carpenter, on the other hand, has taken several approaches to ensure more control over in-store handling of remote control devices and related materials, as well as their ultimate return.

"We etch the remotes as well as the TV sets with the unit number. We make copies of the instruction booklets for customers and have a file where we keep originals of every instruction book we've ever received in case the customer comes in (and they do) and says, "Gee, I've lost this booklet." In a plastic bag, we put the remote and all the items that come with it. On the person's card, we write down everything they have gotten. When we go to do a turn-in, we check these items off, and if they are not in there, we do try to charge them back to the customer. And I do emphasize *try*."

Although Carpenter reports a few problems with remote controls, she says, "Recently, people have spilled things in them and that is obvious abuse, which is spelled out in the contract so it is charged back to the customer."

Video Supplier Who's Who

Video products continue to be the mainstay of the rental-purchase industry. And knowing where to get the products needed to satisfy customers' wants is essential. Here is a detailed list of current video suppliers to the industry. Each is an APRO associate member, convention exhibitor, or advertiser in an APRO publication.

* = Associate Member
+ = Advertiser
‡ = Convention Exhibitor

*+‡**Philip M. Bell Co.**
6131 Interstate Circle
Cincinnati, OH 45242
(513) 489-7700
146 Johnson Rd.
Houston, PA 15342
(412) 746-6300
TVs, VCRs, camcorders

*+‡**Hitachi**
401 W. Artesia Blvd.
Compton, CA 90220
(213) 537-8383
(800) 262-1502
TVs, VCRs

*+‡**Philips Consumer Electronics**
P.O. Box 14810
Knoxville, TN 37914-1810
(615) 521-4711
Magnavox, Sylvania and
Philco TVs, VCRs,
camcorders

*+‡**Quasar**
4205 Diplomacy Rd.
Ft. Worth, TX 76155
(817) 283-8103
TVs, VCRs, camcorders

*+‡**Sanyo Fisher**
21350 Lassen Ave.
Chatsworth, CA 91311
(818) 998-7322
TVs, VCRs, camcorders

***Shintom West Corp. of America**
20435 S. Western Ave.
Torrance, CA 90501
(213) 328-7200
VCRs, video players

+‡**Soundesign**
34 Exchange Place
Jersey City, NJ 07302
(201) 434-1050
TVs, VCRs

*+‡**Symphonic Corp.**
100 North St.
Teterboro, NJ 07608
(800) 242-7158
(201) 288-2666
TVs, VCRs

+‡**Tatung**
2850 El Presidio St.
Long Beach, CA 90810
(213) 637-2105
TVs, VCRs

*‡**Teknika**
353 Rt. 46
W. Fairfield, NJ 07006
(201) 575-0380
TVs, VCRs

*+‡**Thomson Consumer Electronics**
P.O. Box 11009
Indianapolis, IN 46201
(317) 267-5839
RCA/GE brands: TVs,
VCRs, camcorders

*+‡**Toshiba**
82 Totowa Rd.
Wayne, NJ 07470
(201) 628-8000
TVs, VCRs

+**Video Aid**
99 Tower Dr.
Middletown, NY 10940
(800) 431-5843
Extended warranties on
video products

+‡**Welton/Techwood**
2109 Luna Rd. Suite 100
Carrollton, TX 75006
(214) 243-5602
TVs, VCRs, HECs

*+‡**Zenith**
1000 Milwaukee Ave.
Glenview, IL 60025
(312) 391-8231
TVs, VCRs

In the Bag

If customers have trouble keeping up with the remotes, stores can have the same problem, without a little bit of planning. "For every TV and VCR that we have," says Carpenter, "there is a plastic bag that contains the remote control, the instruction booklet, the operations manual, and whatever else came in there, such as splitters. The bags hang on a little bulletin board in the parts section of the store with tacks on it and the number of the VCR unit written on the front of each one. The servicemen know to go there and pick up that bag before they deliver the unit."

VCRs

If televisions are being rented, videocassette recorders can usually be found nearby. Kimley Barker, owner of two Rite-Way stores in central Texas, opened his first store in early 1986. VCR rentals make an important contribution to his profits, even though they tend to

Advice from APRO seminars "has made a world of difference" for Frank Felty.

come back more often than anything else he rents.

"We have everyone sign a rent-to-own contract," says Barker, "even if someone comes in and wants a movie for the weekend and a VCR for a week. The biggest part of the time they'll come back and keep paying on it." His VCRs rent for about \$10 a week.

Lloyd Taylor, owner of 14 Affordable Rent to Own locations headquartered in Oregon, sees a slowdown in VCR rentals compared to two years ago, but still garners a constant 20 percent of his BOR from the machines. "I think the market's more saturated. I think 80 percent of all homes now have VCRs in them, so it's just like microwaves." Specials, and movie rentals in his older

locations, still boost Taylor's VCR rentals.

He also offers rent-to-own contracts exclusively, offering customers three different models for a monthly rate: a rental return or lower-end Sharp unit at \$29.95; a more elaborate three-head Quasar machine with 38-function remote control, \$39.95; and a four-head stereo model at \$49.95.

Different Fee Structures

Harold Hutchins solves the problem of early returns on VCRs by requiring customers to pay one month's rent before they can convert to weekly payments. "We have to do that because otherwise people would rent a VCR for a week and turn it in, and we can't make money like that." A popular model with his southern customers would be either a GE, RCA, or Zenith four-head, cable-ready model with remote control for \$15 a week or \$55 a month, including tax.

VCRs make up 14 percent of Hutchins' BOR, which he would like to see

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“After delivering 97 units in the first 16 days I’m glad I made the move to Rent City!”

— Bill Rhodes, New Rent City Franchisee

Early this fall, Bill Rhodes converted two of his stores to Rent City, in Augusta and Waynesboro, Georgia. November is the first month under the new banner. How is it working?

“Phenomenal! In 16 days we delivered 97 units in our Augusta store, and 22 in Waynesboro.”

Was Rent City’s advertising effective?

“It really pulled! We ran no ads in Waynesboro, which is on the edge of the market. Yet we still delivered 22 units there, just on the strength of the TV we ran in Augusta. That should tell you how hard-hitting Rent City advertising really is! Business continues to be very strong, and a significant improvement over previous levels. In fact we have doubled our deliveries over last month.”

And, why did Bill choose Rent City?

“They’ve put together the most complete package of services in the business, at the lowest cost. Their in-store merchandising programs are terrific — ideas no one else has even thought of! They’ve given my stores a bright new look that customers like. And their training seminars are the best I’ve seen!”

Rent City offers a total plan to increase your customer base, reduce delinquencies and boost your BOR — just as we’re doing for Bill Rhodes and a growing number of independent RTO dealers.

For additional information, call Rent City today at **(214) 541-2696**

Or see us at the following shows:

Atlanta Furniture Show, January 27-31
RENTEX, Atlanta, February 16-18
NARDA, Dallas, March 27-30



The New Way To Go In RTO

122 W. Carpenter Freeway, Suite 501
Irving, Texas 75039

increase. "I'm never satisfied with any BOR," he says, and plans to boost the figure by offering more television-VCR combination specials.

Frank Felty permits one-week rentals in his Virginia and Tennessee stores and finds VCRs strong in all of his stores. Competition has recently forced him to drop his price from \$14.65 to \$9.95, midway in a field of local prices that now go as low as \$7.95 and as high as \$10.95. "We don't like it," he says, but saw no other choice.

"We're getting a bigger and bigger customer base because we constantly are buying more VCRs," says Felty. "Most people just keep coming back and getting them. The majority of your customers really intend on renting them to own, but for some reason they turn them back in."

Deborah Carpenter offers daily, weekly, and weekend prices for VCRs, but finds that the number of units she needs to keep on hand in each store is dropping. "At one time that was a very lucrative business, because a lot of people didn't have VCRs. I once had 15 units in each store. I now have 10 units, and that's really too many; five would be adequate."

She is not concerned that VCR business will vanish, however, saying, "Even though a lot of people have them, people are getting a second VCR, and also, their first one is starting to wear out. Home videos are here to stay. To get everybody out and take the kids to the movie is not only a big ordeal, it's expensive. If I'm not renting VCRs, I'm going to be renting laser disc machines or something."

A-V Centers

Popularity of home entertainment centers, also called A-V (audio-video) centers, varies widely among dealers surveyed. Lloyd Taylor's northwest customers respond well to Affordable Rent to Own's promotions for television, stereo, and VCR in one cabinet. Harold Hutchins' Florida and Georgia customers appreciate the ability to run stereo sound through the television and VCR.

Other dealers express reluctance to put so much merchandise in the hands of one customer. As Deborah Carpenter explains, "Of course, RTO is famous for no credit checks and you rent to every warm body who walks through the door—almost. I am not willing to risk a TV, a VCR, a stereo to somebody that

I don't know, or somebody that I might know but has bad credit. Even some of our better customers have a tendency to get into financial trouble.

"That's just a very expensive item when you start putting three different units and then you buy the cabinet," says Carpenter. "I'm a gambler, but I like the cards stacked in my favor. I don't mind gambling one unit, but three units on somebody I don't know, I just don't do that."

Going to the Movies

Dealers large and small have given careful consideration to the question of whether they should join the video movie marketers, and for most, timing has been the most important factor.

Donald Drown notes that in Fremont, Ohio, a town of roughly 25,000 people, the number of video outlets has doubled in the past few years. There was already too much competition, and

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Suppliers Look To the Future

Looking ahead to 1989, Ken Gay, sales manager/rental accounts at Philips Consumer Electronics, expects a healthy economy to fuel strong consumer demand for electronics products. "Next year looks like a barnburner of a year," says Gay.

He is most excited about his company's new programmable total remote control system to be introduced, the UR4. This hand unit will provide control of multiple electronics products, anything that operates with infrared sensors.

At Toshiba, on the other hand, national advertising manager Richard Meindenbauer anticipates no major changes in sales patterns until a new blockbuster product appears on the market. Meindenbauer predicts a growth rate of 2-3 percent for the next few years until a product that equals the impact of VCR or hi-fi stereos emerges.

Toshiba currently identifies about half of its VCR line as appropriate for the rent-to-own market, and a third of its television line. Asked what Toshiba is doing to support the RTO market, Meindenbauer names two areas: allocating inventory of specific models for rent-to-own; and educating their people internally to the special supply needs of rent-to-own dealers.

"This is a major problem for any manufacturer. The operations people, the order departments must understand that the rent-to-own area is a little bit different than what they're used to, and must be handled differently. You must allocate X amount of goods to be used every week, week in and week out.

"Once you get (rental dealers) buying, and they're buying 6, 12, 24, 100 units a week, whatever it may be, that's going to be almost a weekly business with them, and you must allocate those goods and have them available for the month's period of time. Before your new shipment comes in, yes, if they haven't been taken, then sell them to a retailer."

Weakness in this area can lead to major shortages of product with impact lasting several months, due to the lead time necessary to manufacture electronics items.

"We've been trying to educate internally our people and allocate the goods that are needed to fill dealers' needs," says Meindenbauer. "Again, not go out and select all of the low priced, high moving goods that our dealers are used to. We make a selection of lower priced goods, but we look at the medium and higher priced goods to be used by the rental dealer more effectively."

Toshiba offers various small products to be used as incentives for rental dealers on fulfillment of contracts: clock radios; rice cookers; Walkmans; and boom boxes. Meindenbauer also suggests that dealers could encourage customers to keep VCRs longer by offering free videotapes for the weekend when payments are made. A mini video movie club or discount coupons to a nearby video store would reward the customer and perhaps prolong the keep rate for VCRs.

Providing blank videotapes for sale would also be good point of purchase displays, says Meindenbauer.

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Top Brand TV's Your customers can choose from an extensive line of state-of-the-art products with a complete selection of screen sizes and features.

Quality Performance VCR's There are over two dozen RCA and GE VCR models ranging from economy to full-featured products.

Solid State Camcorders We have a vast range of cameras and camcorders all easy-to-use, yet filled with advanced features.

Innovative Audio Products Also available is a wide selection of GE radios, cassette recorders and personal entertainment products.

And there's more...

Efficient Service Every RCA and GE consumer electronics product is backed by a nationwide sales and distribution network designed especially for you and your business.

For further information on the RCA and GE rental lines, send in this coupon to:

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Rental Division
P. O. Box 11009
Indianapolis, IN 46201

We will send you our full-line catalogs.

YES I am interested in receiving more information on the RCA and GE rental lines.

Name

Address

City State

Zip Code Phone No.

Consultant Available For Wage-Hour Problems

New service benefits APRO members

Wage-hour and equal employment problems are a serious concern for rent-to-own businesses. Dealers know labor laws can be complicated and that staying within government regulations can be a difficult task.

But help is on the way. APRO is offering a new service to members that will ease this burden considerably. Members may now use the services of Harry Weisbrod Associates Inc., a specialized business consulting firm in Dallas. Harry Weisbrod, president of the firm, has many years of experience in labor relations, wage-hour, and equal employment problems. He was a seminar presenter at the APRO '88 Convention in Las Vegas and has presented other seminars for the association in the past.

Weisbrod is available free of charge for telephone consultation on problems related to wage-hour or equal employment opportunity regulations. He is also available, at a reduced fee, for representing members in EEOC or Wage-Hour investigations and for consultation at their businesses.

Members may write to him or call: Harry Weisbrod Associates Inc., 10300 N. Central Expressway, Suite 350 Bldg. V, Dallas, TX 75231, (214) 373-0435.

A newsletter published periodically by Weisbrod is also available at no charge to APRO members. Copies may be obtained by calling or writing Kayte Bean, Director of Member Services, at the APRO office in Austin.

Weisbrod founded his firm in 1968 after working 18 years for the Wage-Hour Division of the U.S. Department of Labor. As a CPA and former auditor for the IRS, he is aware of how IRS regulations affect wage-hour concerns.

His experience also includes negotiation. He serves as a labor arbitrator, as a member of the National Panel of Arbitrators, the Public Employment Disputes Settlement Panel of the American Arbitration Association, and is on the panel of Federal Mediation and Contractor Services. Weisbrod is the author of five books.

An excerpt from one of his newsletters appears on the facing page.



Weisbrod

Wage-Hour News Bulletin

Published by Harry Weisbrod Associates Inc.

Reprinted with permission

Are time clocks increasing your costs? Increasingly, we find employers computing hours worked on the basis of exact time card punches, particularly since many new sophisticated time clocks on the market are programmed that way.

A typical scenario: You want your employees to work from 8:30 to 5:30 with one hour for lunch. In fact, many of your employees punch in between 8:15 and 8:29, show less than one hour for lunch on the time card, and punch out perhaps 5:33 to 5:40. In most cases, these employees did not *work* over eight hours, although the time card may show eight hours, twelve minutes of elapsed time.

In the example cited, an employee is paid for 12 minutes extra. During a week, a typical employee could be paid

one extra hour at time-and-a-half. Multiply this by the number of employees involved and you will see that such an abuse can be extremely costly.

In addition, no employer wants to run a business where his employees, in effect, determine what hours to work. Yet many employers fear that not paying according to the time clock punch would result in a Wage-Hour violation. Not so, as per Wage-Hour Regulation 785.48 "Use of Time Clocks":

"(a) Difference between clock records and actual hours worked. Time clocks are not required. In those cases where time clocks are used, employees who voluntarily come in before their regular starting time or remain after their closing time, do not have to be paid for such period providing, of course, that they do not engage in any work. Their early

or late clock punching may be disregarded. Minor differences between the clock records and actual hours worked cannot ordinarily be avoided, but major discrepancies should be discouraged since they raise a doubt as to the accuracy of the records of the hours actually worked."

We advise clients to notify employees that henceforth they will be paid according to scheduled starting and quitting time. Supervisors are told to enforce this policy and to discipline employees who work outside the schedule without authorization. Extra time is not allowed unless the supervisor approves the time on the time card.

To ensure employees understand company policy regarding starting and quitting times, we recommend posting the following notice:

Notice to all Employees

We are very anxious to comply with the Wage and Hour Law. We want to pay you for every minute that you work. By the same token we want you to work only the hours scheduled, **unless specifically given permission.** Accordingly, effective immediately the following rules will be followed:

(1) You will be assigned a specific starting time. **You are to perform absolutely no work prior to that starting time unless specifically authorized by management.** Any employee who works before the starting time without

authorization will be disciplined. Accordingly, regardless of how early you punch in, your time will be computed from the scheduled starting time unless an earlier starting time was authorized by management, in which case you will be paid for this extra time.

(2) You are required to take your authorized lunch period. Your time card should reflect that you have taken this time. **You are not to be on the floor during your lunch period.** If, because of press of business, you do not take your full lunch period, you should

show the exact time you took for lunch and you will be paid for this time. However, any deviation from the established lunch period should be authorized by management.

(3) The Federal Wage and Hour Law provides severe penalties for turning in inaccurate records. We insist that our records be accurate. We also insist that employees follow this schedule that we set for them to work. Again, we repeat, we will discipline any employee who turns in inaccurate records or performs any work which is not authorized.

APRO and Furniture Together in Atlanta

It's a first for the rent-to-own industry

By David Timmons

Renting furniture is becoming a bigger and more important part of the rent-to-own industry every year. No longer is it just appliances and electronics that generate profits. Many dealers are making room on their floor for furniture because they realize the market is out there and they would be smart to take advantage of it.

But being the relatively new-kid-on-the-block, furniture rental has raised a lot of questions. Where is the best place to buy it? What style rents better than others? How much inventory should there be? How much money will need to be invested? What do you do about wear and tear if it's returned? Maybe these questions and many others have crossed your mind, but you didn't really know where to get the answers. Well, not to worry. Have we got a deal for you.

All you have to do is attend the Atlanta Winter Furniture Market, January 28-February 1. APRO will be there for the first time to help guide you through this well-attended annual event.

Not only will you have the opportunity to study the ins and outs of furniture for rent-to-own, you can learn about commitment from one of the rental industry greats, Chuck Sims.

Two seminars planned for the rent-to-own industry during the Atlanta Winter Furniture Market will be open to the trade with a discounted rate for APRO members. Other events are scheduled exclusively for Association members.

Kick off your stay by coming to Atlanta Friday evening, January 27. APRO will have a cold drink waiting for you in the Monte Carlo Room of the Market Center between 7 and 9 p.m. Sponsored by Voyager Insurance and the Atlanta Market Center, it will be a good opportunity to meet old friends and make some new ones.

A hospitality suite, sponsored by Rent City of Irving, Texas, will also be open Saturday, Sunday, and Monday nights at APRO's headquarters hotel, the Wyndham Garden, from 9 until 11 p.m. so you can unwind from the day's activities.

A free shuttle is available between the Wyndham and the Market Center for all APRO attendees, so you don't have to worry about transportation. Running a round trip at least six times a day, the 13-passenger van allows you to avoid heavy traffic and costly taxi fares.

But time is running out to reserve your room, so please act quickly. APRO

needs to have your reservations no later than Tuesday, December 27. Fill out the registration form mailed to you recently and send it to APRO headquarters, not to the hotel. You may also fax your form to us if you're using a credit card. Our fax number is (512) 447-0687 or you can call us at (512) 447-0333. We will need a credit card number to guarantee your room, but a deposit is not necessary.

After December 27, we won't be able to guarantee you'll have a nice, comfortable room waiting for you when you arrive. You'll be stuck with whatever is available, if anything. So why not make your reservations now, while you're thinking about it.

Special Seminars

Once you get to the convention, you won't have to look for anything meaningful to do. In addition to all the beautiful furniture displays for you to see during your five-day stay, APRO



The headquarters hotel for APRO at the Atlanta Winter Furniture Market is just a shuttle ride away from the Market Center and a 25-minute drive from Hartsfield Airport. A hospitality suite will be open at the hotel three nights during the event.

has arranged two seminars designed to give you information you can take home and actually use in your day-to-day operations.

Charles D. (Chuck) Sims will open your eyes Monday morning from 9 until noon when he holds a seminar entitled, "How to Develop Commitment for an Organization: Identify—Create—and Results of Creating Commitment." Sims is well-qualified to speak on such a topic, having over 25 years' experience in the rental business. He is a former president of APRO and is the founder of Remco Enterprises where he is currently chairman of the board. Remco now has 150 company-owned and franchise stores throughout the United States.

In Sims's seminar, you will learn such things as: what commitment is; what process a person goes through to become committed; what to recognize when creating commitment; what to look for when hiring; how to monitor results after creating commitment; and more. You won't want to miss hearing this excellent speaker and for \$25 for members (\$50 non-members) you'll be getting valuable information you can't get anywhere else.

The other seminar, "Everything You Have Always Wanted to Know About Furniture," will be held from 9 a.m. until noon Tuesday. A panel of experts,

**Charles D. (Chuck) Sims
will open your eyes
Monday morning
when he holds a seminar
on organizational
commitment.**

including three members of the APRO board, will involve you in a lively question and answer forum. Peg Canter, vice-president of Buyers Services and the Atlanta Market Center, will act as moderator. Other members of the panel include: B.C. Wampler, president of Pulaski Furniture and chairman of the board of governors of the Home Furnishings Industry; Jeff Holmes, president of Singer Furniture; Bill Boyenton, president of Lehigh Furniture Company; and Gary Taylor, vice-president of sales, Hart's Manufacturing.

There's probably no question you could ask that these people haven't already faced at one time or another, so be sure to attend. Prices are the same as Sims's seminar. And by the way, each seminar is preceded by coffee and donuts at 8:30 a.m.

APRO must have your registration and payment for each seminar in

advance, no later than January 23. Fill out and return the registration form you received the latter part of November and be sure to include your check or credit card number. Make checks payable to APRO.

Special Concert

After spending three days working hard, going to seminars, and looking at furniture, you may be ready for a little entertainment. Well, just head on down to the Atrium Theater at the Apparel Mart at 6:30 Monday night. Lee Greenwood will put on a two-hour concert you won't soon forget. Greenwood is a television and concert star who will be remembered for one of his biggest hits, "God Bless the U.S.A." Best of all, this is a free concert and APRO members will have a section reserved just for them.

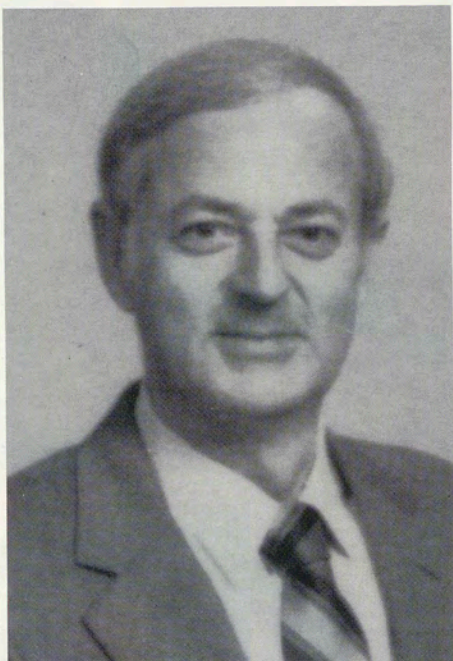
Most of these details are contained in the brochure mailed to members November 15. But if you have any questions, call the APRO office at (512) 447-0333. This will be an informative, exciting meeting and will really help you run a better business. See you in Atlanta.

PR

David Timmons is the new PROGRESSIVE RENTALS advertising manager.

APRO Publications Have New Ad Manager

Newest member of the APRO staff is Advertising Manager David Timmons. An experienced advertising professional, Timmons will handle advertis-



Timmons

ing sales for PROGRESSIVE RENTALS, Who's Who In Rent-To-Own, and the Convention Show Guide.

"Dave is a welcome addition to the staff," said Editor Frances Knight in making the announcement. "We are fortunate to have someone of his background and capabilities, and I know he will be an excellent representative for our publications."

A 1976 graduate of the University of Texas, with a bachelor's degree in journalism, Timmons came to Austin in 1960 when he enlisted in the air force. He was born in Wabash, Indiana, but was raised in Defiance, Ohio.

Timmons put in a short stint as a purchasing agent for an Austin electronics firm and as a disc jockey for two local radio stations after his air force tour of duty.

After graduation from UT, he joined the staff of the *Austin American-Statesman* as a sales representative in the advertising department. Quickly becoming the top producer on the staff, he was soon promoted to major accounts representative and then, two years later, to retail sales manager. Part of his duties in this position included

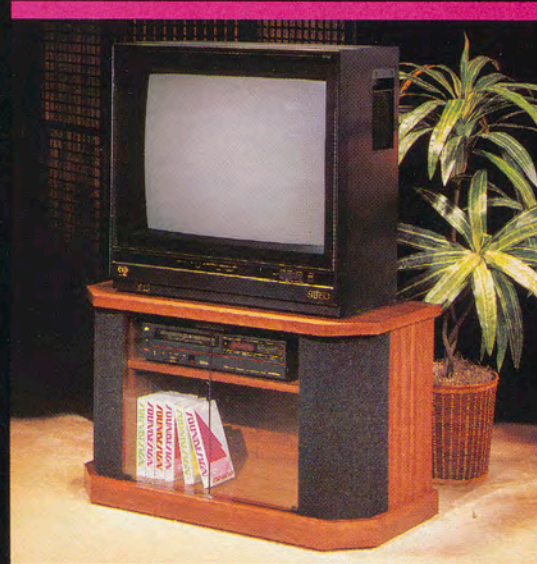
supervising a staff of 30 sales reps, holding sales training seminars, speaking to schools and other groups on newspaper advertising, and calling on major advertisers at their corporate headquarters throughout the United States.

From there, Timmons was promoted to advertising director of the *Longview News/Journal* in Longview, Texas, where he lived for two years. While working for the newspaper, he was also responsible for editing copy in special sections. And at one point he edited an association magazine on a part-time basis.

With 11 years' experience in the advertising/journalism field, Timmons comes to APRO well-qualified and ready to do an outstanding job. "I'm really excited about working with what I can tell is a dynamic organization," he said. "I'm reading all I can about the rent-to-own industry and I can hardly wait to meet these folks in person. I'm going to work closely with dealers and suppliers to make sure this magazine helps their businesses run more efficiently and more profitably."

Timmons replaces Samantha Sipowicz, who has moved to the Chicago area.

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Alternative Financing

Taking a Look at What's Available

By Edward D. Wilson

"How can I grow?" "How do I keep growing?"

Those questions are never far from the mind of even the greenest of entrepreneurs. If he has been successful getting his business out of the blocks and has cleared the first hurdles without a major fall, his eyes are looking down the track. He knows where he wants to go and he knows how. But he needs money to get there.

The search for capital is unending. For the new business it may be the single largest factor. For the established, reducing excessive debt load or minimizing vulnerability to interest rate swings may be desirable, as well as entirely new strategies to maintain and increase growth.

Here we'll explore some of the more common ways a business owner can raise capital, along with their benefits and limitations. Later articles will focus in detail on each of these alternatives.

Public Offerings of Securities

Without a doubt, "going public" or the first interstate sale of securities is the most complex way for a growing business to raise capital, but it can be the most rewarding. If your company has certain characteristics you should consider it. Investment bankers consider annual revenues of \$5 million to \$10 million a minimum. Management must be experienced and sound. Your track record should be clearly documented. Annual growth of 20 percent or more and the strong potential to maintain and increase it is commonly assumed, unless the expectation of explosive growth is warranted.

"Going public" or the first interstate sale of securities is the most complex way for a growing business to raise capital . . .

There are many advantages. The proceeds of an offering are usually unrestricted. By using the company stock in the form of compensation plans, you can attract and retain key employees. Offerings also increase your financial alternatives. The company's net worth increases and your borrowing capabilities are improved. If things go well, a second offering can be used to raise additional capital. Also, if your strategy is growth by acquisitions, stock can be used with no additional debt.

There can be disadvantages. A company in the public eye feels pressure to maintain consistently rising quarterly profits and this can disrupt or delay long-term goals. Executive salaries, competitive positions and much else are a matter of public record. There are expenses also. Typically 7 to 10 percent of the total offering proceeds go to the underwriter and out-of-pocket expenses range from \$100,000 to \$500,000. Finally, the owner may risk losing control of the business he has built.

Local/Regional Commercial Banks

It is necessary to maintain a relationship with one or more area banks, but it is unlikely they will be good sources for expansion capital. While they can provide low-cost finance they are risk averse.

No matter how positive the outlook for your company, if the business (as

with many rent-to-own companies) is viewed as risky and your past record short or erratic, a worthwhile deal may be very difficult and next to impossible for a beginning business.

Commercial Finance Companies

These companies provide another route for rent-to-own entrepreneurs. The cost of funds is higher than banks and collateral is always required in the form of first liens against assets financed and personal guarantees. But they are aggressive lenders and will lend even to troubled companies. Their renewable credit arrangements provide more capital as your asset base increases.

The chief drawback is high rates of interest, usually 4 to 5 percent floating above prime. Quick repayments of advances are required and if trouble occurs, these companies will move rapidly to liquidate their demand obligations.

Venture Capitalists

Venture capitalists offer an avenue of raising expansion monies, particularly for companies whose businesses are seen as high risk enterprises or who don't yet have an established track record. The price for assuming such risk may be a sizable equity stake in your company. Almost always the company will be expected to go public within a five-year time frame to allow for liquidation of all or part of the venture capitalist's holdings.

Typically, these firms closely monitor the performance of the business, but this is not necessarily negative since they are strongly business oriented and

can be a valuable source of counsel to help solve problems. They range in size from private individuals who may provide \$100,000 or more to institutionally based firms capable of contributing \$50 million to \$100 million.

Small Business Investment Companies

SBICs are hybrid organizations—usually private corporations with partial funding from the Small Business Administration. Again, only fast growing companies who anticipate going public need apply.

SBICs can provide capital in the \$100,000 to \$1 million range, but usually on the lower end of the scale. They will usually be flexible in the arrangement of vehicles from straight debt to straight equity, and various hybrid securities such as convertibles with warrants to buy attached are common. Maturity of debt is regulated to five years and the interest rate is fixed.

They also can be useful sources of management advice and usually require some form of direct participation such as a seat on your board. However, since they are prohibited from taking a

For a new business or an established one, the search for growth capital is unending.

controlling interest by the SBA, there is little danger of your losing control.

Exempt Public Offerings

There are three types of security offerings exempt from the registration requirements of the Securities Act of 1933.

Private Placement of Securities allow the business owner to raise from \$500,000 to \$5 million within a one-year period. The method of sale, the number and type of investors, and resale are strictly controlled.

Unregistered Public Offerings provide for offerings of up to \$1.5 million in a one-year period, without restrictions on number or type of investor or resale of securities. Within limits, general solicitation and advertising are approved.

Intrastate Offerings allow for the sale of securities to residents of a particular

state by companies doing a substantial amount of business in that state. There are resale restrictions but none on the general solicitation or advertising of the offering.

Joint Ventures And Partnerships

Joint ventures, general and limited partnerships offer some of the least complicated methods of raising expansion capital. And while there is some federal regulation of limited partnerships, they are extremely flexible, may be drawn up by local CPAs and attorneys, and can require only a minimum of paperwork. Also, they do not involve the issue of securities. For smaller companies willing to approach individual investors, they may be the best alternative to debt financing.

PR

Edward D. Wilson is a financial consultant with the Robinson Humphrey Company, a subsidiary of Shearson Lehman Hutton. He has taught at the University of Florida, Auburn University, and Georgia State University. This is the introduction to a continuing series on alternative methods of financing.

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PROFIT from PAY-OUTS

Your paid-up customer is your best prospect

By Edward L. Winn III

There comes the time when all rental dealers must confront the issue of pay-outs, which most readers will define as the number of customers who "go to term." That phrase, in turn, will likely include in any month, the number of customers who pay a unit off early as well as those who go the full 18 months.

A dealer cannot avoid facing the pay-out issue even during those first heady weeks of a new store in a good location. Even though most thoughts are on deliveries and growth, a dealer will have had to forecast a certain number of pay-outs in his cash flow projections because a few will surely come from among the first week's or first month's customers. That is, after all, the name of the industry.

Some dealers spend a lot of time playing with pay-out statistics as a percentage of other aspects of the business. This is the proverbial keep-rate calculation. And there are nearly as many formulas for calculating keep-rates as there are keep-rates.

Some dealers make the simple calculation in any month of the number of pay-outs divided by the total BOR for that month. (See box on facing page for keep-rate formulas.) This calculation will help balance books in the store and

Paid-outs bring joy for the customer and some problems for the rental dealer. But the dealer who views the pay-out as an opportunity can improve his profit picture.

will give a dealer some information about purchasing needs, but doesn't really tell the dealer who is acquiring ownership, or when, or what products are sticking and which ones are coming back.

Some dealers make the calculation monthly by subtracting the number of pick-ups and charge-offs from the deliveries, then dividing that sum by the total deliveries for the month. This calculation is similar to the first, but again, is not particularly informative.

Still others calculate the future by keeping track of the total number of deliveries, pick-ups, and skips and stolens since the first day of business for a store. This is a useful calculation, but eventually the math becomes cumbersome.

Other dealers make the calculation by measuring pay-outs against deliveries 18 months ago. This is the calculation that gives a lot of information about the enterprise. A dealer can use this figure to determine how often one customer rents a product long enough to own it.

It is automatic that eventually all product that is not stolen will go to term. That is, rental dealers ultimately turn their rental inventories. An important issue for dealers for tax forecasting and other reasons is how long a unit will maintain a certain cash flow before leaving inventory. This is a function of the keep-rate using this formula.

The industry has long maintained that the keep-rate was roughly 20 percent based on this last calculation, which in effect determines the percentage of customers who rent new product and pay it out. From this calculation, dealers can go on to determine the average life of a unit in inventory. Assuming all 18-month contracts and a 100 percent keep-rate, the average life would be 18 months. Most dealers report that figure somewhere between 22 and 30 months.

Another interesting calculation that can be made from these two is the average number of customers per contract. Rental dealers understand that pick-ups cost money and that the greater the

number of customers who rent a product, the greater the expenses that will be associated with that unit—repair, refurbishing and the like.

Different Views

It is interesting to note that philosophies differ markedly when contemplating keep-rates. There are dealers who would love, but for the credit laws, to have a 100 percent keep-rate. They will go to great lengths to avoid picking up product and this attitude makes itself felt throughout the system. They are more careful on the front end and turn down more customers than other dealers and are not as tight on the collection end, being more willing to work with a customer rather than having to pick the unit up.

At the other end are dealers who are in no great hurry to have units pay out and, in fact, like to keep product on the books as long as possible. They would be happy with a zero keep-rate. They turn down few customers and have tight collection policies. They expect to get the product back and want to keep it as long as it is "rentable."

Competitive pressures keep either of these extremes from operating in the absolute. The first dealer can only succeed in a marketplace with an infinitely expanding customer base. With a stable or shrinking customer base, this dealer must figure ways to maximize the returns on each product rented. The result will be to shore up the rental term at the lower end to keep the product out on rent.

In a perfect marketplace, this dealer, if he got a unit back after 6 months, would put it back out for rent for 12. If it then came back after 9 months, he would put it out for 3 months. In reality, after the first rental, the unit might go out for 15 months and finally, never for less than 6 months, or in some companies 12 months. Customers can and do shop around.

The keep-rate will depend not only on the formula used, but also on how a dealer alters the terms on his rental merchandise when it returns to the store.

A dealer in the second category, who might like to rent new product for 18 months and everything else for 17 months, no matter what, must respond to the marketplace and adjust terms accordingly.

The clash of these philosophies has tended to increase value in the rent-to-own marketplace for customers and has made rental dealers carefully think through pricing strategies, which includes the rental term. The industry is doubtless only beginning to evolve in terms of customer options.

There are, of course, other formulas that dealers use. Equally obvious is the fact that the keep-rate will vary sharply depending upon the calculation. In the celebrated *Palacios* case in Wisconsin,

both sides did keep-rate calculations to support their legal arguments. The rental company came up with a 22 percent keep-rate. Legal aid lawyers on behalf of *Palacios*, using the same store records for the same period of time, came up with a keep-rate over 45 percent.

While it would be nice to have a standardized means of calculating keep-rate along with a standardized depreciation method and expense categories in the industry, such standardization does not yet exist. That does not mean that keeping such statistics internally is not useful.

Dealers use such statistics, however derived, to see which products stick better than others. There are costs associated with picking up merchandise, and it helps a dealer with pricing to know whether indeed laundry and other white goods stick better than brown goods, as is the common wisdom, in a particular store location.

A Related Issue

An operational issue related to pay-outs and keep-rates is that associated with early buy-outs. As a cautionary note, dealers are advised that early buy-

Keep-Rate Formulas

$$\frac{\text{Monthly Pay-outs}}{\text{EOM BOR}} = \text{Keep-rate}$$

$$\frac{\text{Deliveries} - \text{Pick-ups} - \text{Charge-offs}}{\text{Deliveries}} = \text{Keep-rate}$$

$$\frac{\text{Total Deliveries} - \text{Total pick-ups} - \text{Total S \& S}^*}{\text{Current BOR}} = \text{Keep-rate}$$

$$\frac{\text{Pay-outs}}{\text{Deliveries (18 months ago)}} = \text{Keep-rate}$$

* Skips & Stolens

outs are regulated by law in several states—not only whether dealers must offer one, but in a few states, the buy-out formula itself is regulated.

Most dealers understand an early buy-out is a mechanism allowing the customer to purchase the property at a discounted price during the term of the agreement. Although early buy-out formulas are required by statute in only a few states, most dealers offer some form of early buy-out, either voluntarily as a marketing tool or in response to market pressures.

One clear industry trend in many markets is the increase in early buy-outs, especially late in the term. Early buy-outs were once an insignificant part of the business, representing less than 1 percent of revenues for most dealers. Today, that number can easily be 3-5 percent of revenues. One reason is that early buy-outs are more available and marketed better by dealers.

Another factor is advances of the rent-to-own concept into higher economic levels. If rental dealers aim at customers with incomes of \$30,000 many of these customers have the kind of disposable income it takes to exercise an early buy-out. As competition presses down on

rent-to-own pricing overall, the early buy-out is being increasingly used by the middle class to try out a product before buying it (the realization of Remco's "Try it Before You Buy It" trademark).

While that is a source of joy for the customer, it means a loss in cash flow for the dealer. . .

This trend, in turn, has led some dealers to consider canceling the early buy-out option in the later stages of the contract. In other words, the dealer might offer an early buy-out option during the first 15 months of an 18-month agreement, but have no early buy-out mechanism during the final three months.

Again, this strategy is not legal everywhere. In South Carolina, for example, dealers must offer an early buy-out during the life of the agreement at the prescribed formula of 55 percent of the remaining payments.

That actually means that a customer beginning the 17th month of an

18-month agreement in South Carolina could obtain ownership by making two more monthly payments, for the purposes of this example, of \$50 per month. Or the customer could exercise the statutory early buy-out and make one payment of \$55 at the beginning of the 17th month and thereby obtain ownership.

One of the pay-out issues is whether dealers have an affirmative obligation to disclose to customers their rights to exercise an early buy-out option beyond having the language in the contract, which as a general matter is carefully explained when the contract is signed. Most dealers have concluded that they have no such obligation, although the matter is by no means settled.

Nor is the matter merely moral, however. A customer who is renting still has a rental agreement and the company's contractual obligation of repair. A customer who has bought a product owns it and may or may not get any warranty protection along with the ownership. Even with a manufacturer's warranty, service is not likely to be as hassle-free as with the rental company. An extra two months service is worth a few dollars to a lot of customers.

In any case, there has not been the stampede of 17th month buy-outs in South Carolina as dealers there once predicted.

Taking the Right Approach

Dealers may, of course, be tempted to approach pay-outs with a sense of doom and foreboding. A customer who has regularly paid for 18 months or 78 weeks in a row will now own the product he or she has been renting. That is a source of joy for the customer; it means an abrupt loss in cash flow for the dealer and, likely as not, require that the dealer also buy a new piece of merchandise for his inventory.

Thoughtful rental dealers recognize, however, that every pay-out represents an opportunity.

A customer paying off a 25-inch color console TV may only be celebrating the new acquisition. He may not be thinking about a washer/dryer, a stereo, or some bedroom furniture. Dealers with a good paying customer approaching the end of a contract term will start early showing that customer products that he might like to obtain for no real change in the customer's cash flow. The customer is, after all, used to making a

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APRO Delivers At The Atlanta Winter Furniture Market



Atlanta Market Center • January 28–February 1, 1989

The APRO program at the Atlanta Winter Furniture Market will help you avoid getting “lost in the crowd” of more than 45,000 people who attend the annual market. Practical advice and solid information you can apply every day in your business are what you will get in the seminar and forum scheduled for rent-to-own dealers. A pre-market cocktail party for APRO members only will give early arrivals an opportunity to network with their peers. Other events, including the seminar and forum, are open to all rent-to-own dealers, not just APRO members. You have a chance to increase your knowledge, exchange ideas, and visit with savvy individuals in the furniture rental industry while you look over the latest offerings in furniture and accessories.

Special room rates for APRO attendees have been arranged with The Wyndham Garden Hotel at Vinings. No deposit is needed; however, a credit card number is necessary for a room guarantee. All hotel reservations must be submitted to the APRO office no later than Tuesday, December 27. To take advantages of the special rates, contact the APRO office at:

● **Charles D. (Chuck) Sims, Chairman of the Board, Remco America Inc., Houston, Texas, will be addressing the all-important issue of commitment in the seminar entitled: “How to Develop Commitment for an Organization: Identify-Create-and Results of Creating Commitment.”**

● **All APRO members are invited to the APRO hospitality suite in the Wyndham Garden Hotel.**

● **“Everything You Have Always Wanted to Know About Furniture” is the topic for the question and answer forum. A panel of experts from different areas of the furniture industry will advise rental dealers on adjusting their business practices to add furniture lines profitably and effectively.**

A·PRO ^{T.M.}

(512) 447-0333

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regular weekly or monthly payment to the dealer.

If that relationship has been nurtured properly, as its end approaches, the dealer has an excellent opportunity to argue persuasively that the customer can simply continue making roughly the same payment and, in exchange, get that new washer/dryer, refrigerator, or furniture that the customer has been eyeing the last few weeks in the store.

Dealers should be quick to sweeten the deal with good customers. For the promise of another 18-month or 78-week cash flow, a dealer should be quick to offer to apply the last payment on the first item to the first payment on a second. The dealer might also want to throw in delivery to make the transition smooth for the customer.

Although less true than it once was in the business, dealers still brag about customers they have maintained a steady relationship with for four or five years in a row, helping those customers obtain first a television, then a stereo, then a VCR, then an apartment full of furniture. There is a wonderful feeling of loyalty on both sides of such a long-lived relationship. Under such circumstances, a pay-out becomes a blessing instead of a curse.

A Word on Warranties

Most dealers offer to pass along any unexpired manufacturer's warranties when the customer obtains ownership of the property. Or at least, that is the language that appears in many rental agreements across the country.

There was once an issue whether a manufacturer's warranty that went into effect when the manufacturer sold the item to a rental dealer would pass on to the rental customer at all. A few such warranties in the early '80s had language that voided them if the property was rented. As a practical matter, merchandise that is repeatedly rented is subjected to much harder use than an item that is sold to a customer once and remains in that customer's home.

For the most part, many manufacturers have recognized the need for rental dealers to be able to pass along their warranties and do allow such warranties to pass. Avoidability, however, may still be an issue for new entrants into the rent-to-own market.

Some dealers additionally offer their own in-store warranties. Dealers will offer, for example, 30 to 90 days on parts and labor for merchandise that a customer pays out.

Importantly, dealers under both circumstances need to be aware that there is a federal law covering warranties—the Magnuson-Moss Warranty Act. The Act begins by stating that all warranties must be in writing and in "plain English" without fine print. What that means is that if a dealer represents that the company will pass along any unexpired manufacturer's warranties, those warranties should be available in writing in the store for the customer's inspection at any time. When a customer obtains ownership of the property, a copy of the applicable warranty should be made and given to the customer at the same time that the customer is given a bill of sale or other evidence of ownership.

Likewise, if the company has its own limited warranty, merely telling the customer that repairs are covered for the next 30 days is not sufficient. In order to market a warranty, there must be a written document that explains the terms of the warranty. Importantly, the Magnuson-Moss Warranty Act does not require anyone to offer a warranty, but it does dictate how those warranties must be offered.

Dealers should be quick to sweeten the deal with good customers.

In a recent survey, APRO found several companies that stated in their contracts that they offered their own "limited warranty," but had no written document to back up such a claim. All were in apparent violation of federal law. Warranties need not be complicated documents, but they do need to be in writing. They need to be labeled either "Full Warranty" or "Limited Warranty." They must explain what the customer is to do in order to make use of the warranty.

The issue is really whether the dealer is interested in standing behind a product beyond the date of ownership. Unless market conditions require him to do so, he may elect simply to pass along the merchandise to the customer "as is," which is the general language that disclaims the existence of any warranties.

Service Contracts

For some time, retailers have used service contracts to increase profits in an area of rapidly diminishing margins in product sales. The strategy is appar-

ently proving successful. Sales of service contracts can account for 4-6 percent of gross sales in an electronics retail store.

According to Jerry Katcher, vice president of Warrentech, quoted in *Audio-video International*, "As a rule of thumb 50-60 percent of the consumers who spend \$300 or more for a product will buy the service contract and 20-30 percent of those who spend less than \$300 will purchase, if they are in an environment where service contracts are offered."

Service contracts are beginning to find their way into rent-to-own as a means of enhancing profits. There are some clear-cut do's and don'ts, however, concerning such arrangements.

In the first instance, dealers typically advertise that the rental rate includes full service while the product is out on rent. A few dealers go so far as to explain their loaner policy in the contract. If that is the case, it would be double charging to have customers pay for a service contract that includes any portion of the rental term, since repairs are already included.

Once the customer obtains ownership, however, there is no reason not to attempt to sell a customer a service contract for upkeep of the product in the future just like retailers. The service contract can be sold outright for cash at the end of 18 months or the dealer can allow the customer to pay out the service contract.

In theory, the dealer could allow the customer to make payments on the service contract during the life of the rental agreement. There is a potential problem, however, for customers who have made payments on a service contract and who return merchandise before paying it out.

Those customers, unless the dealer carefully tracks payments and is prepared to make refunds of the service contract, will have paid for something they did not get. Such transactions would most likely constitute a deceptive trade practice under the laws of most states.

Dealers can, of course, offer customers, as a part of the transaction, the ability to in effect prepay on a service contract another, say, \$1 per week or \$4 per month, which would roughly pay for another 2-3 years of parts and service after the customer obtains ownership as long as they maintain a refund policy.

A few rental dealers have already entered the extended service contract

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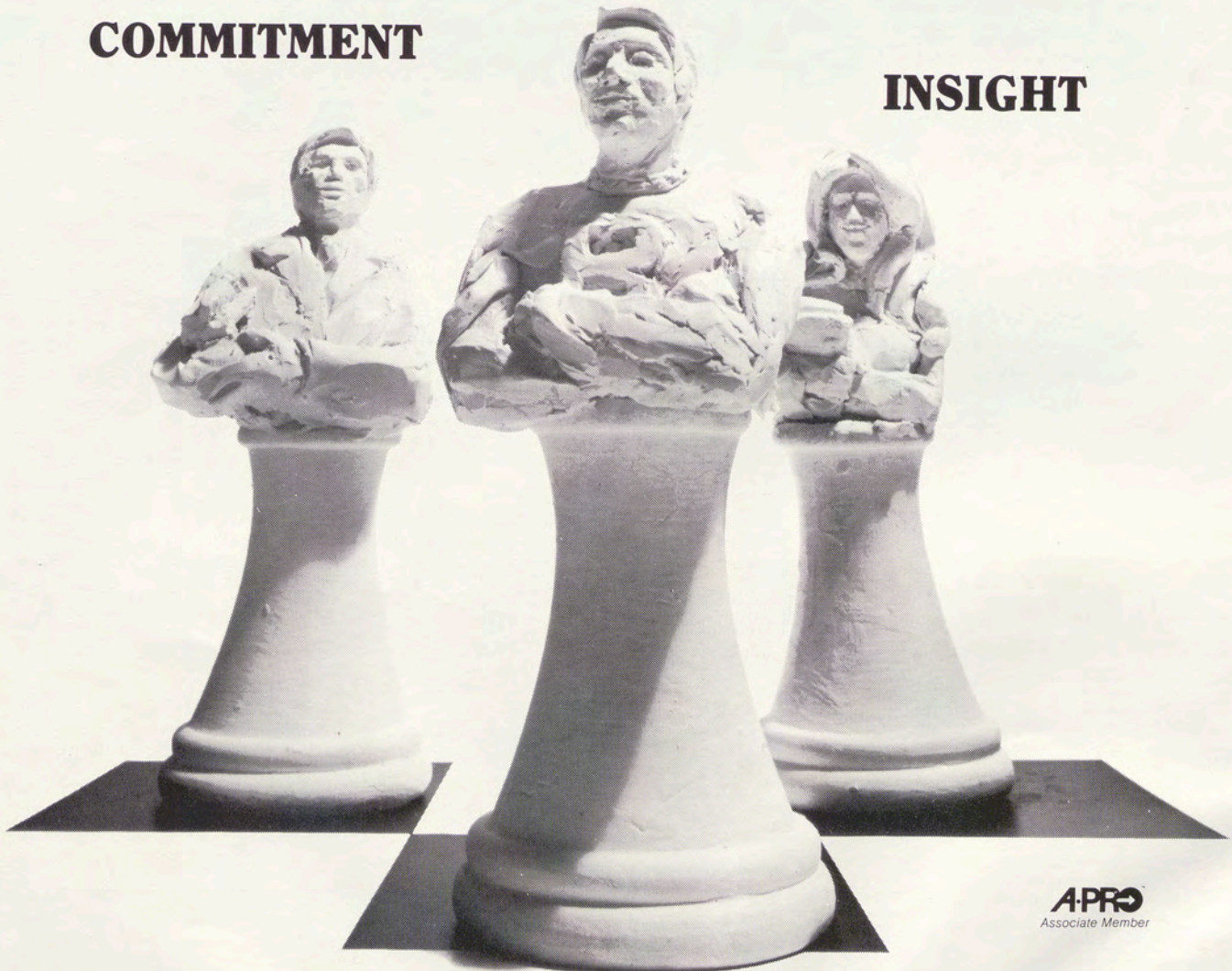
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business and are doing just that. They offer extended service contracts in their rental agreements and explain their refund policy in the event the merchandise is returned.

The entire extended service contract area is not without problems. Retailers have gone into business with extended service suppliers who have subsequently gone bankrupt, leaving the retailers with the responsibility for repairing merchandise and no money to pay for such repairs. Rental dealers are cautioned to investigate extended service suppliers carefully and to shop around among suppliers doing business in their area.

One bit of assistance for rental dealers in this area is NARDA's new Service Contract Industry Council (SCIC) (see box). The SCIC will attempt to provide information about its members and police a new industry much as APRO set out to do eight years ago.

Extended service contracts do make sense for rental customers, since during their rental agreements they are used to having their service taken care of. As the extended service contract market moves into rent-to-own, dealers should find success in selling a product that continues the same kind of coverage customers were used to during the first 18 months of their relationship with the dealer at a reasonable cost.

Pay-outs in Purchase-Option States

In most states, paying out a product for a customer means making the last rental payment. That may mean the 78th weekly payment, the 18th monthly payment, or some other longer or shorter term. Most dealers recognize, however, that is not the case everywhere.

There are still at least four states that

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Service Contractors Organize

The Service Contract Industry Council (SCIC) is a new association organized for companies that provide administration for product service contracts. The new group is a subsidiary organization of NARDA (National Association of Retail Dealers of America). Elly Valas, NARDA president, said that "NARDA's board of directors has agreed to form the group in order to establish standards for the service contract industry."

The group was formed with 14 charter members and had gained five more by mid-November. First full membership meeting will be held in Las Vegas on January 6. The association's by-laws will be ratified and officers will be established at that meeting. A planning committee was named to develop a proposed mission and purpose statement and to discuss codes of ethics and future legislative issues.

According to one member of the new group, SCIC intends to put out a directory that would disclose financial information about member companies, including their insurance coverage and financial background.

Members of the group are: American Bankers Insurance; American Warranty Group; Borg Warner Associates; Chrysler First Inc.; Delta Warranty; Elite Group Inc.; EWC Electronics Inc.; Extended Service of America Inc.; Federal Warranty Service Corp.; Independent Dealer Services; ITT Commercial Finance Corp.; National Electronics Warranty Corp.; National Warranty Corp.; Phoenix Service Corp.; Positive Protection Service; Service Plan Inc.; Television and Appliance Warranty Inc.; Universal Protection Plan; and Warrentech.

Members of the planning committee are: Steven Childress, American Warranty; Jerry Katcher, Warrentech; Kevin O'Brien, Service Plan; Fred Schaufeld, National Electronics Warranty; Bernie Schermer, Independent Dealers Service; and Mike Stevenson, Federal Warranty.

According to a report in *HFD* magazine, the only criterion for membership in SCIC is that 51 percent of the applicant's business be done as a third-party service contractor, but other requirements may be added later. Initial membership fee has been set at \$2,000.

An important issue for dealers for tax forecasting and other reasons is how long a unit will maintain a certain cash flow before leaving inventory.

require rental dealers to have balloon purchase option payments at the end of the rental agreements. Customers must actually "buy" the product before they can obtain ownership. Those states are North Carolina, Maine, Wisconsin, and Minnesota.

Pennsylvania had been on this list of balloon states until last February when their legislature saw fit to declare that a rental agreement, even with a fair market value balloon payment, was the same thing as a credit sale in that state.

Dealers in a balloon state are faced with their own set of pay-out problems. In the first instance, they must calculate a balloon payment sufficiently large enough to escape having the whole

transaction recharacterized as a credit sale, and yet not so high as to make marketing their program impossible.

Without revisiting the entire issue of nominal consideration, suffice it to say here that rental dealers in Maine, Wisconsin, and Minnesota are constantly faced with determining the fair market value of used merchandise in their markets. The law in those three states maintains that as long as the dealer sells the product to the customer for its then fair market value, the previous rental transaction is just what it purports to be and is not a disguised credit sale.

In North Carolina, dealers have had more assistance from the legislature. In 1983, the North Carolina legislature defined nominal consideration as 10 percent or less of the original cash selling price. Therefore, rental dealers in the Tarheel State can charge customers a final balloon payment of 11 percent or more of their original cash selling price and escape the restrictions of that state's Retail Installment Sales Act.

Other problems arise if the balloon is larger than a rental customer can pay in one lump sum. Dealers may be tempted

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VIDEO

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"We've just got a new one coming in, National Video, which will carry 50 tapes of all the new titles. Somebody is going to get hurt." Outlets include convenience store-gas stations open 24 hours a day, grocery stores such as Kroger's that are open 16 hours a day, and talk of video machines coming into Seven-Elevens that will accept credit cards.

Says Drown (who has decided to stay out of videocassettes), "What are you going to do? You can't stay open 24 hours a day."

Add Videos If . . .

With 3,000 titles apiece in two of her Mississippi stores, Deborah Carpenter has been in videocassette rentals for about five years. She agrees with Drown that most rent-to-own dealers should avoid the field if they are just getting into the market now, unless they have especially deep pockets, a better way of doing business, or can find an area without competition.

Most of the people who got in on the ground floor of video "are still around," says Carpenter. "If you have come into the video market lately, you are going to find that it is probably impossible to pay for your stock tapes, unless you have a community that just doesn't have video yet. I feel like there are some smaller communities out there that don't have video yet, that are still prime targets for a video market, but unless you have some big bucks and you do it better than anybody else does, the video heyday is pretty much over.

"At this point, (making money) depends on what kind of investment you're willing to make. If you just want to put a few videos in your store, I don't think that's a good idea. If you've got money, videos are a good traffic item, but you've got to be able to compete with the big boys out there, the video markets that have 10,000 movies. A lot of the independent dealers are finding that they are unable to compete with these big video stores that come in and can do it for a dollar a day."

Most small dealers cannot survive with such a price structure. "I rent my movies for \$2.50 because they cost me \$70," says Carpenter. "If you have any knowledge of arithmetic, you can add that up and if I rented them for a dollar a day I would have to rent them 70 times.

"Most tapes would be damaged by the time I got around to renting them 70 times. In some cases you can do that, but it just depends on who gets hold of it. If you get somebody who's got something wrong with their VCR, they could eat a tape up the first time they put it in. We have new releases damaged quite a bit."

Carpenter's expertise in selecting movies that will be popular with her customers has increased significantly since she first began, which she attributes both to her continual involvement in studying new movie releases, and advice from distributors who understand her needs.

"The problem is not in selecting A titles [such as *Rambo*, *Three Men and a Baby* or *E.T.*], it's really in selecting good B titles and C titles. Everybody is going to get the A titles, but if I'm unsure of something, I ask the opinion of my distributors who have already viewed these tapes," says Carpenter.

"One of the problems we have with our distributors is that they have been bought out by big organizations and we're not getting the service that we once were getting from them."

Keeping up with the best movies "takes a lot more maintenance than a lot of things. If I need to order washers, I call up and order 50 washers and that's it. If you want to order 50 videos, you have to really study to see which 50 videos you want to order. It's a lot more time consuming."

Employee Training

The level of formal training offered by most dealers ties in most closely to the size of the company. Dealers with one or two stores and a handful of employees may be able to train each new worker themselves, but expanding firms quickly learn the value of systematic programs.

With 18 stores, Frank Felty has had to realize that employee-company relations and training can be tightly intertwined. His plans for expansion have been on hold for the last year while greater attention has been focused on

improving both training and employee satisfaction.

"We've had a lot of employee problems that we never used to have, like everybody else has been having for the past couple of years," says Felty. "We just kind of pulled our reins in on employees and worked on them for the past two years, getting a better employer relationship."

"We just took on the Learning Power project [created by Rozanne Flatt and originally offered through APRO] and put it into operation six weeks ago. I can see that that's going to be one of the better things we've done as far as an employee benefit. Everyone will go through our program every 90 days, once we get going really good. Right now we're just trying to train everybody that is really not trained well."

Harold Hutchins uses a combination of staff and Learning Power Training, as well as inviting sales representatives from different manufacturers to give product knowledge training sessions every three months or so.

Lloyd Taylor has also found a formal training program to be useful for educating staffs in his 14 northwest stores (up from only five locations two years ago).

"I bought Learning Power from APRO last year," says Taylor. "Every employee is required to go through a three-day course, 24 hours in all. They're required to pass all the courses, or they're not allowed in the store to work. I pay them to go through the training."

"The results have been excellent. It's saved me a lot of money and helped weed out people who might have thought this would be a breeze of a job. They've come to class, realized they're not cut out for it, and not shown up the next day. It's saved me a lot of money and time," says Taylor.

Beating the Drums

That money and time can be put into profit-generating activities such as promotions, which vary widely with dealers around the country. Where competition is meager or non-existent, store owners may rely on store signage and Yellow Page ads exclusively to develop business. In his Lampasas and Marble Falls, Texas, stores (both serving populations of less than 10,000), Kimley Barker follows this approach.

"If we advertised, I'm sure we could get a lot more people in, but we don't borrow any money to operate. We just like to pay as we go," says Barker.

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In Oregon, Lloyd Taylor uses a variety of promotion methods, including celebrity appearances provided free by video distributors to boost movie rentals. "We had Lieutenant Uhura from 'Star Trek' with people wrapped around the store three times, waiting to get in for her autograph. We've had Playboy Bunnies a couple of times for the Playboy Videos promotions that were pretty good, but I'd say that the gal from 'Star Trek' was the best," says Taylor.

Deborah Carpenter was offered Mr. Spock for an appearance, but at a cost of \$10,000, a price she felt was too steep for her to justify.

Taylor also finds success with direct mail advertising and always includes coupons for video movies. He likes "rent one, get one free" movie offers as well as one-third off the first month's rent for promoting television rentals.

Harold Hutchins notes that the medium is more important than the type of promotion. "Direct mail has worked best for us. One particular premium that worked well in getting units out was a 99-cent first week special that you did not have to pay the second week with it. You walk in with 99 cents, and walk out with the unit—any item in the store, except VCRs."

Frank Felty notes that one of his biggest frustrations in advertising comes from trying to reach his audience. "We figure that no matter how much advertising one does, there are idiots out there who never see your advertising. I shouldn't use the word 'idiot', but as long as I've been in business I've had people come in and say, 'Well, how long have you been here?'"

"I ask them if they read the newspaper and watch television, and they do, but they never see your ad. It amazes me. How do you get to those people who never see your ad? That's the big key I'm working on."

One plan Felty expects to pay dividends involves his new computer system that allows him to more easily identify paid-ups and pick-ups to be targeted for mailings to draw them back to the store. "We're working on getting those people back on the books. It's a big push for us involving circulars and mailers to our previous customers. We're working on that strongly."

Although he knows that customers often use specials only for the stated period, returning the merchandise after a week or two, Felty believes that "in the long run we make money on it. If we didn't, we wouldn't constantly be buying (new merchandise). We'd still have

our same inventory."

"We're zeroing in with letters offering them a \$5 first week special, and we're planning a few others down the road that I don't want to talk about yet. We've got a preferred customer card that offers a special discount that we don't offer to any other customer. When they've been a paid-out customer, they get to rent any item for \$2.50 for the first week and they can use that anytime they want," says Felty.

Many dealers we surveyed prefer to feature overall promotions of their stores, rather than selecting individual items to target. "We do overall promotions," says Deborah Carpenter. "We generally don't do just one specific item unless we have a lot of it. Instead, we promote the whole store. If I do \$10 off, it's on every item in the store."

She plans a promotion of some kind for every month. "It might be a free turkey with a rental for Thanksgiving. For Halloween, it was popcorn, candy, and free movie rentals."

Faster delivery of newly introduced items would be desirable. Photos in June and delivery in October does not contented customers make.

In Ohio, Donald Drown finds that listing specific prices of available items brings results and lets customers know that they will find prices "as good or even better" than national chains in the area. He also advertises in 10 different phone books within a 50-mile radius of his stores.

One Wish

Asked what one thing they would like to see suppliers offer to make their lives easier, dealers had a variety of concerns.

"Give us a better supply of merchandise," says Drown. "Some of the stuff is coming in so slow. We also need a better supply of parts. We were in a world of hurt a couple of months ago. We had terrific lightning storms go through here right after that real hot weather, and trying to get parts sometimes takes a month or two and people get real upset. This has been the big problem."

Drown would also like to see faster delivery of newly introduced items.

Photos in June and delivery in October does not contented customers make, he says. "It's kind of a universal problem this year that the supply of new stuff is very difficult to get."

He also describes 1988 as the "worst year for getting parts that I've seen in 25 years of business. Parts are not available, they're put on back order, and suppliers don't give you a reason," says Drown.

Ray Peel echoed Drown's comments, saying that "parts are a constant problem," but that he may be having fewer problems because "we've quit buying from people who don't have parts."

Harold Hutchins would be happy if manufacturers would eliminate the small plastic doors on the front of televisions and VCRs "because they get broken by customers," and make re-renting more difficult. "The time factor involved in replacing them is a problem."

Frank Felty suggests more point of purchase advertising materials. "Displays are always an eye-catcher," says Felty.

Deborah Carpenter wants a "hassle-free return policy. When something comes in DOA, such as a video movie, it's amazing what I have to go through to return something. They say it's a hassle-free policy, but believe me, it is not. We end up spending months hassling over it.

"One of the problems we have with our distributors is that they have been bought out by big organizations and we're not getting the service that we once were getting from them. To me, that's so important."

Carpenter cringes when two companies merge or a major buyout occurs, such as Thomson's purchase of RCA/GE. "Anytime somebody swallows somebody up, immediately all the phone numbers are changed; the number you called last week is no longer in existence. You call eight numbers and finally find somebody who can help you, and they don't know who you are. It's really frustrating," she says.

A New Year

As suppliers adjust to the needs of rent-to-own, and dealers fine tune their own video profit pictures to put themselves ahead of their competition, 1989 should be an excellent year.

PR

Susan K. Elliott is a Texas-based writer and editor, and co-author of National Directory of Corporate Training Programs, recently published by Doubleday.

RTO Companies Make INC. 500

Two rent-to-own companies, both headquartered in Georgia, have made the 1988 INC. 500 list of America's fastest-growing private companies. The annual list is compiled by *Inc.* magazine. Listings are based on the percentage of growth over a five-year period, 1983-1987 for this year's list.

1st American Rental Center, headquartered in Lithonia, Georgia, appears 66th on the list with a more than 3000 percent increase in sales during the specified period. With 29 stores in the chain and "seven more on the drawing board," 1st American has locations in Georgia, Wisconsin, and Virginia. The company was founded in 1983.

Commenting on why his company has had such a tremendous growth rate, Chairman of the Board Mac McCullar said, "It's no real secret. It just

takes hard work, quality personnel, training, and motivation." Emphasizing the importance of training, McCullar compared it to advertising expenditures. "Don't spend more money on advertising than you do on training," he said. "Money is better spent on training."

To prove he means what he says, McCullar said he has sent 50 employees to one- or two-day seminars outside his company during the last year. Additionally, he sent 35 or more employees through at least a week's in-house classroom training during the same period.

McCullar is president of the Georgia Rental Dealers Association, treasurer of the Virginia Rental Dealers Association,

and is on the board of directors of APRO.

Network Rental of Atlanta is no. 368 on the 1988 INC. 500, marking the third year in a row the company has made the list. Sales gain from 1983 to 1987 was 862 percent.

The company was founded in 1981 and now has 39 stores in Illinois, Georgia, Alabama, and Missouri. President Perry J. McNeal also attributes his high growth rate to hard work and to timing. "We went into this business at the right time. The first few years were expensive, but rent-to-own was expanding rapidly at that time. Also, interest rates were high back in 1981 and that helped our business."

PAY-OUTS

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to simply allow the customer to continue making the same weekly or monthly rental payment until the balloon amount has been paid. Such a practice is dangerous.

The risk is that a court would fail to distinguish the sales transaction from the rental transaction and characterize the whole relationship as a disguised credit sale under state law. A better practice is for dealers to conduct an actual sale with a separate sales document.

If the sales price must be financed, then dealers are advised to conduct a sales finance transaction in full compliance with the state installment sales law. While there are considerable consumer protections built into such state laws, a customer who has rented for 16-18 months has proven himself to be a good risk and entering into an installment sale with that customer should work even though the dealer will be "toting the note" himself.

PR

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

Bad Facts Make Bad Law

A bankruptcy court in Illinois faced with bad facts has given a bad ruling on the issue of whether a rent-to-own agreement is a security interest under state law. "Bad" facts to a lawyer are facts that will raise a judge's or a jury's sympathy against a lawyer's case even though the law might be on the lawyer's side.

In this case, the rental company rented to the same customer "a bedroom, living and dining room furniture, a dishwasher, a range, and audio equipment." Before the customer filed bankruptcy, the customer had signed 11 agreements and was paying the rental company \$147.27 per week. This is a staggering fact and caused the rental company to lose the case.

The judge simply said, "Who in his right mind would invest nearly \$150 per week in household furnishings, knowing they automatically will be his after a set number of weeks, without intending to keep paying to accomplish that result?"

It obviously bears repeating that the rent-to-own industry is a legally sensitive one. It is not an industry that will support overreaching of any kind. The common perception is that the market-

place gives us a considerable natural advantage over rental customers. Dealers must be careful not to take advantage, nor to get greedy and seek to improve upon that natural advantage.

It is simply beyond debate that this industry deals with consumers who have limited resources. Given that fact, the law is only going to let a rental dealer have access to a certain percentage of those resources. Without being able to state the precise amount, it is easy to see by virtue of this Illinois decision that \$150 per week from one customer is entirely too much.

There is a compelling body of law which states that rent-to-own agreements are not security interests. Most of the time, rental dealers are able to recover their property when the customer files bankruptcy.

But it is an old axiom of the law that "bad cases make bad law." The rental company in Illinois created a bad case. The result now is bad law for other dealers in the state.

Copies of this opinion are available upon request from: Edward L. Winn III, Kammerman & Overstreet, P.C., 500 MBank Tower, 221 West 6th Street, Austin, Texas 78701.

Dealers in the News

Wendell McNeal decided to take a week off from the rental business during the Democratic National Convention. Did he go hunting, fishing, golfing, or take an exotic cruise somewhere? No. He became a chauffeur at the convention for the chairman of the Democratic Party in Louisiana.

McNeal had been exposed to politics before, working as a legislative assistant for the House Judiciary Committee in 1979-80. He thought since the convention was coming to Atlanta, there might be some way he could get involved. There was.

He applied to the Democratic National Committee about a month before the convention and was given the position of "VIP escort." Chairman James Brady was his official assignment but Louisiana's Congressman Jimmy Hayes, Congresswoman Lindy Boggs, and Brady's wife also went along for the ride. Every day's agenda was different from the one before.

Not only did McNeal socialize with top politicians, but he also met some famous TV stars. At a party at the Varsity one evening, he met Ed Begley Jr., Ed Asner, Kathryn Harrold, Linda Lavin, Doug Barr, Judd Nelson, and Morgan Fairchild.

McNeal's business when he's not driving around VIPs is the McNeal Group in Conyers, Georgia. He also serves on the board of directors of APRO.

More on the subject of politics: Out in Lubbock, Texas, **Delwyn Jones** won

his race for a seat in the state legislature. It was a tight race, with the Republican Jones winning by a margin of 700 votes.

Jones owns two Rent-Buy stores in Lubbock. His term begins in January when the next session of the Texas Legislature gets under way.

APRO board member **Roger Sharp** was recognized recently by his hometown newspaper in Huntington, West Virginia. His picture and several interesting facts about his background appeared in a column entitled, "Movers and Shakers."

Among Sharp's achievements: selection to Outstanding Young Men of America, 1985; named a Kentucky Colonel, 1986; treasurer of Ohio Rental Dealers Association, 1986; Who's Who in Finance and Industry, 1986; and election to APRO's board of directors, 1988. He also acts as a legislative lobbyist in West Virginia and Ohio.

A religious man, Sharp says his goal is to "raise a God-fearing, God-believing family." He is married and has a daughter and two sons. And as further evidence of his religion, when asked for some recommended reading, Sharp said, "The Bible, period."

As part-owner of Appalachian Rentals in Huntington, West Virginia, Sharp takes a straightforward approach when it comes to business. "When dealing with a customer, pretend that person is a mirror. Then treat them as you would if you were the customer."

NASD Sponsors Service Management School

The National Association of Service Dealers is sponsoring the 30th annual School of Service Management in San Diego, January 28-31. A variety of topics will be studied, from increasing negotiating skills, product refurbishing and service contracts to home office product servicing and hiring and firing.

A popular event called the Best Idea Contest will also be repeated this year.

Participants will share ideas they have tried over the past year that improve a service business. Also during the four-day show, the examination for Certified Service Manager will be held.

For more information or to register, contact NASD at (312) 953-8950 or write to 10 E. 22nd St., Ste. 310, Lombard, IL 60148. NASD is a division of the National Association of Retail Dealers of America.

It Started 50 Years Ago

Fifty years of television will be recognized, appropriately enough, at the Consumer Electronics Show in Las Vegas, which begins January 7.

It was April 30, 1939, that President Franklin D. Roosevelt made the first public televised broadcast from the World's Fair in New York City. The new technology introduced then spawned a whole new industry with a lasting effect on our economy and the way we view the world.

The Electronics Industries Association/Consumer Electronics Group (EIA/CEG) will climax their year-long celebration of the past 50 years of television with an exhibit at the Smithsonian's Museum of American History sometime in 1989.

Corporate Moves

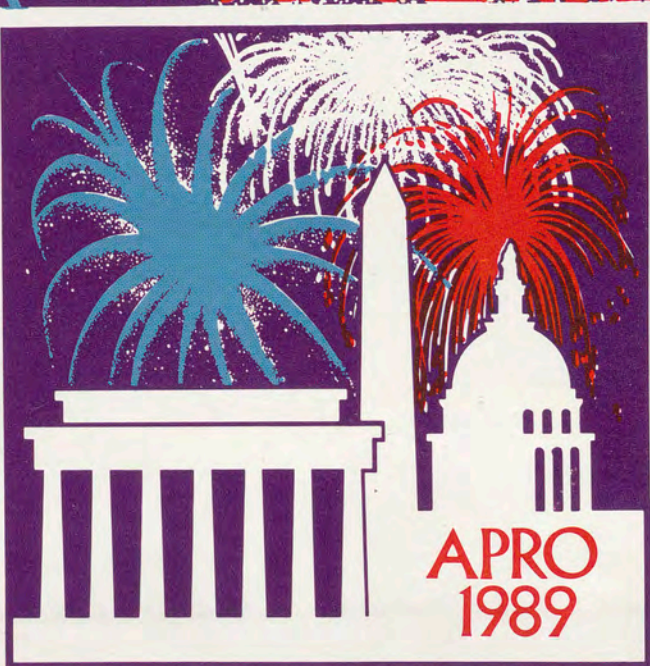
Canyon Rent-To-Own has made several management changes at their Hawaii and Arizona locations. **Jeff Makaukane** has moved from manager of the Aiea location to manager of the store in Kahului, Maui. **Steve Landon** is the new manager at the Aiea location. Working up from customer service representative, **Andres Sanchez** has been named manager of the Canyon store on Farrington Highway in Waipahu. **Billy Fortune** assumes the duties of assistant manager at that location.

In Arizona, **Suzi Procter** was promoted from assistant manager at the Glendale store to manager of Canyon's West Camelback store in Phoenix. **Henry Kevern** transferred from the Phoenix Camelback store to manager of the Glendale location. Canyon also has locations in Las Vegas and Bakersfield, California.

Austin (Bud) Llewellyn of Allentown, Pennsylvania, has been promoted to divisional vice president of sales and marketing for **Chrysler First's** Wholesale Credit. In his 25 years with the company, Llewellyn has held several managerial positions, including his most recent one, director of national marketing. Llewellyn replaces Larry Brown who is now president of Chrysler First Private Brands Division in Allentown.

Join APRO for the event of the year!

APRO Convention 1989 August 9-13
The Sheraton Washington, Washington D.C.



A CAPITAL EVENT

It all comes out in the wash.

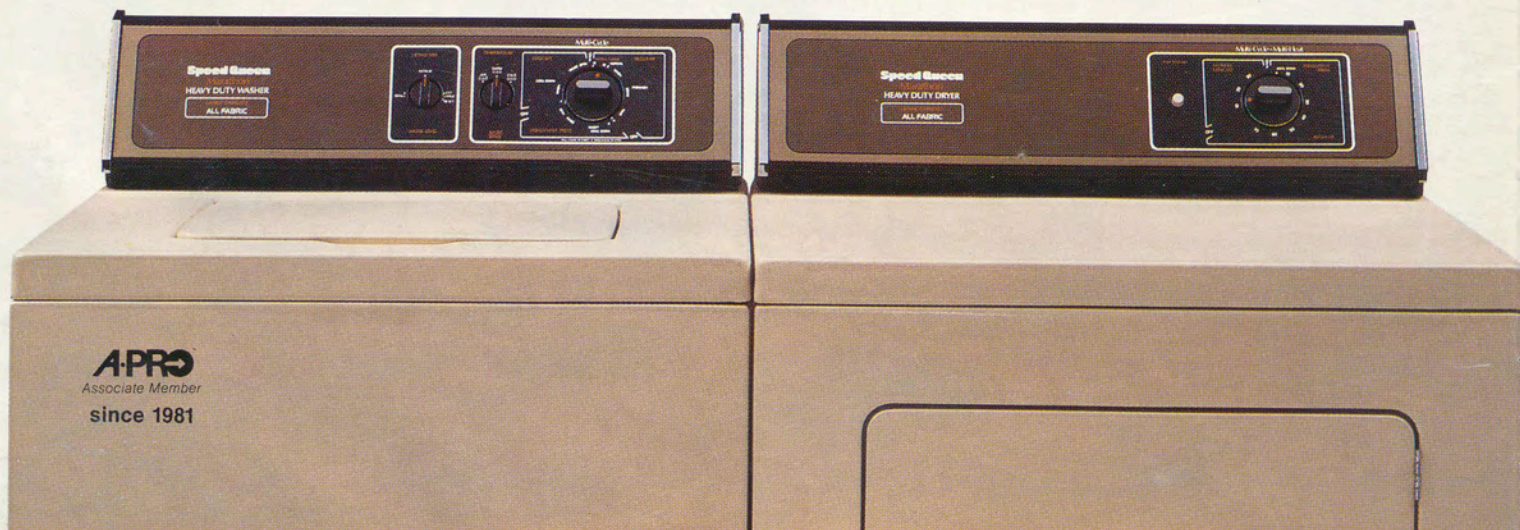
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