

February-March 1990

The magazine of the rent-to-own industry

Progressive Rentals

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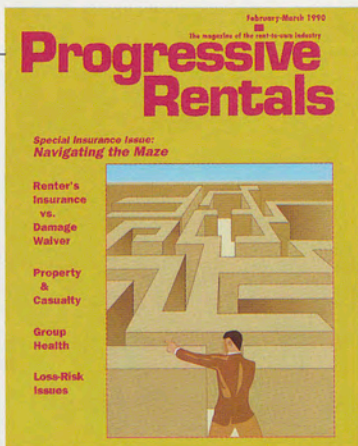


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ON THE COVER: Pondering insurance options, including the "specialty" types developed specifically for the rent-to-own industry, can feel like a confusing maze for RTO companies and dealers. We explore the subject in detail throughout this issue, which can be saved as a handy reference on insurance in rent-to-own.

COVER DESIGN BY:
Joel Mathews

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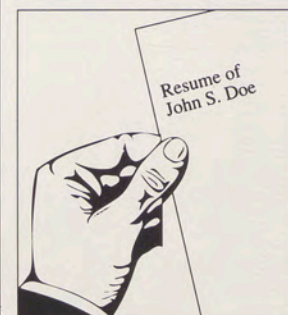
Healthcare coverage is becoming increasingly complicated, and employers and their employees often become concerned. Using a specialist can help your group secure a good plan.



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PRESIDENT'S VIEW

Since this is APRO's 10th year, a 'birthday' party's in the works



Several weeks ago, I was talking with some "old timers" (sorry guys) in the industry when it occurred to me that APRO is about to celebrate its 10th anniversary.

While the exact date of the association's birth is somewhat elusive to all of us, the consensus is that around January or February of 1980 the "founding fathers" started talking about putting together a national trade association for the rent-to-own industry.

This is pretty exciting stuff for me, as I have always been a nostalgia buff. I hope my enthusiasm is shared by all of you who believe the fact that APRO is alive and kicking after 10 years is a good thing. I realize that more than 90 percent of our members (or even rent-to-own dealers) were not in this business 10 years ago. And many who were, unfortunately, are no longer.

I have been associated with the industry since about the time of APRO's formation and have seen products come and go, companies rise and fall, and dealers get rich and go broke. This column is not an adequate forum to chronicle the colorful history of APRO and recognize its past leaders and members (some of whom are even more colorful). Instead, the association plans to commemorate those who worked so hard to bring APRO to life at the annual convention in Orlando, which is coming up this summer.

We aren't sure yet whether our birthday party will be complete with cake, balloons and Bud Holladay in a clown suit, but be sure that both new members and those who have been around since the beginning will enjoy reviewing the rich history of APRO. Mark your calendar to be with us July 22-26 at the Peabody Hotel in Orlando to relive the past and countdown to the future.

Ted Wilson
APRO president

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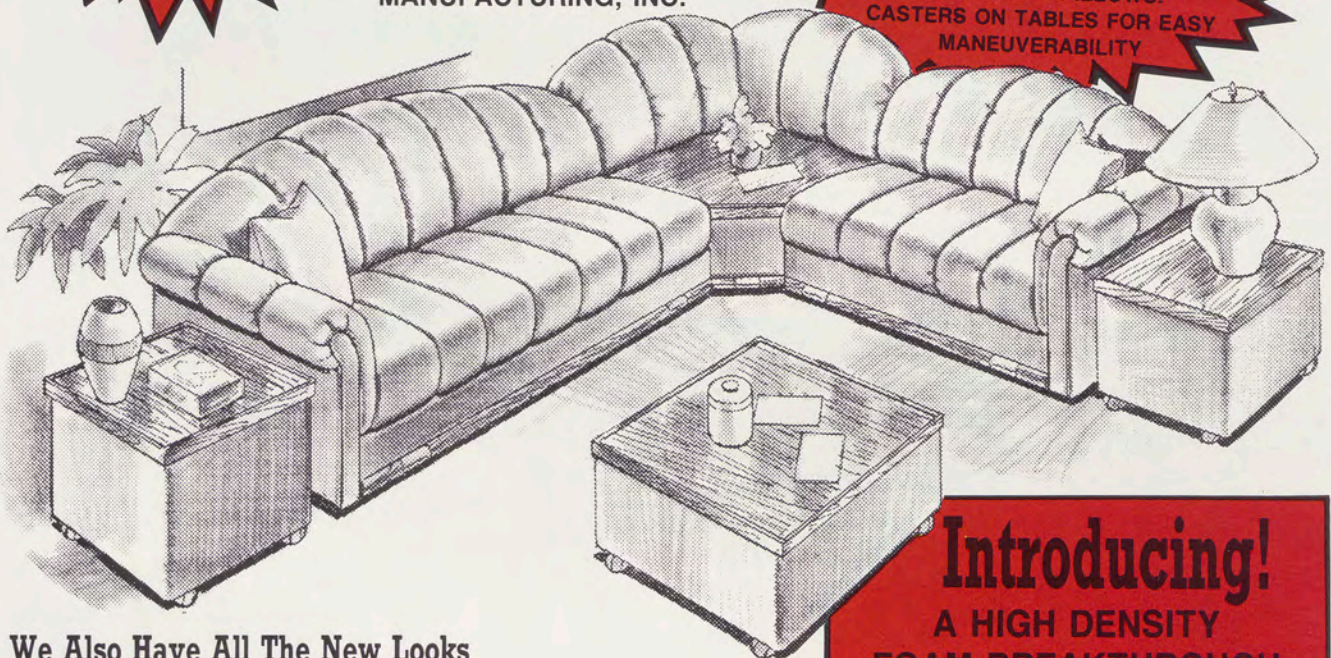
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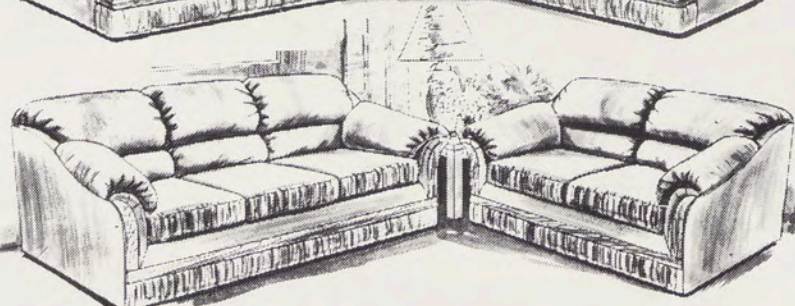
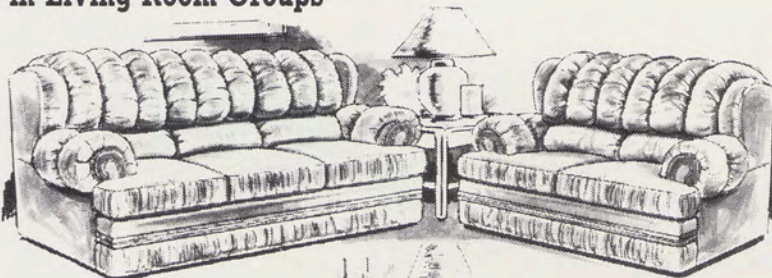
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PUBLICATIONS

• **Progressive Rentals** magazine — the "voice of the home product rental industry" — is issued bimonthly.

• **RTO Network News** — The newest monthly publication headlining current national and state legislative issues.

• **Who's Who in Rent-To-Own** — The most complete national listing of rental dealers available. Published annually.

• **Administrative aids** — Samples of various standard business forms used frequently by rental dealers.

• **Collections Manual** — A guide offering preventive maintenance and effective results for the industry's biggest headache — skips and stolens.

• **Skip-Trace Manual** — A comprehensive guide to locating missing persons.

• **Legal Defense Packet** — Available to all members to minimize legal research costs.

• **Bankruptcy** — An indispensable guide in dealing with a bankruptcy case.

• **Convention seminars** — Cassette tapes are available.

BUSINESS PROTECTION — APRO assists state associations in their organizational efforts and in monitoring the legislative process. APRO's Legal Defense and Information Fund (LDIF) provides an ongoing legislative effort in Washington, D.C.

INSURANCE — APRO offers insurance programs designed specifically for rental dealers.

RENTAL INDUSTRY STATISTICS — Periodically, members will be asked to participate in a survey. The information will be confidential, and compiled so that general industry statistics are available to all members.

CONSULTATION — Legal and Wage and Hour consultation is available, with the first phone call at no cost to the member.

NETWORKING — The sharing of creative ideas; knowledge of developing trends; and participation in the development and direction of the rent-to-own industry.

COMMUNICATIONS — One of the most valuable benefits of membership is the vast opportunity for interaction with other people in the industry. This is a result of APRO members' willingness to share ideas with others. At the convention, the seminars or informally — in person or over the telephone — ideas are continually being discussed and debated.

PR

DIRECTOR'S DESK

'Mac's' contributions to APRO are hard to total, but we're grateful



My first recollection of Mac Hennigan was last August in Washington, D.C. Mac was running for a position on the APRO Board of Directors, and as all other candidates, approached the podium to deliver a brief campaign speech. As a first-time attendee at an APRO convention, with only three weeks exposure to the rent-to-own industry (and as a former politician), I was quite impressed with his opening state-

ment.

"The Mac is Back!" I really didn't hear any thing else in Mac's short introductory address. It only lasted a couple of minutes more. The catchy slogan kept reverberating in my mind.

I soon discovered what a treasure Mac is — and has been for a number of years — to APRO and the rent-to-own industry. He has years of experience in RTO, has been a very active member of APRO's Board of Directors for the last five years, and has served on the executive committee for the last three-and-a-half years. Mac was president of APRO during 1987-88. Last August, the board elected Mac to serve as secretary, a position that also doubles as chairman of the membership committee. Mac loves recruiting new APRO members. Over the years, he has won more membership-drive contests than anyone else. I have greatly enjoyed working with Mac these last several months.

At APRO's recent board meeting, held in Austin at the association's new office, Mac felt it necessary to resign from the APRO board.

Mac, we'll miss you. Your contributions to APRO have been many and we thank you for them. Good luck to you.

The board elected Roger Sharp to fill the unexpired term of secretary of the board. As secretary, Roger will take a seat on the APRO executive committee.

Roger has been active in the RTO industry for 10 years. He started out as an accounts manager in 1980. After four months, he was promoted to store manager. Eighteen months later, Roger started his own RTO business.

He has served as treasurer of the Ohio dealers' association, as well as currently holding the position of president of the West Virginia dealers' association. Roger was elected to the APRO board in 1988, and last year was named "dealer of the year" at the Washington convention, in part because of his success in recruiting new APRO members.

Congratulations, Roger, on your election as the new secretary of the APRO Board of Directors.

Bill Keese

APRO executive director

'Getting house in order' should be top priority

Establishing a rent-to-own store's image is the first task for any owner

By Randy Buffington

What is advertising? Is it coming up with that new idea never thought of before or is it the tapping of human emotions into action? Stephen Leacock says "advertising may be described as the science of arresting the human intelligence long enough to get money from it."

I believe advertising is first having a plan and then having the discipline to carry it out. Before committing to an advertising plan, though, you should first take the time to see if your house is in order.

Housecleaning begins with looking at your rent-to-own store's outside appearance. Look at it the way all important "drive-by" customers do. How can you make yourself stand out from the rest of your competition and get their attention? Begin with your windows. See if they tell the story and make people curious enough to come in.

We'll look at some basic areas that need to be covered before you've finished "getting your house in order."

Identity

Your identity (name and telephone number) is of utmost importance. Thirty percent to 60 percent of rent-to-own business is conducted over the phone. Make sure your name and phone number stands out clearly and is set larger than everything else on the window. Specify the products that you offer — televisions, stereos, furniture, jewelry and appliances, for instance. Don't make the mistake of assuming people know what you carry.

By advertising your merchandising and merchandising your advertising, you will see ... an increase in your bottom-line profit.

Benefits

Here are some familiar examples: no longterm obligation; no credit needed; no repair bill; free delivery; famous name brands. These are just a few benefits rent-to-own typically provides. Not all of them may apply to your situation. But you must make the customer realize you are in rent-to-own. Be honest with yourself. Can someone look at your store front and, without hesitation, know that it's a rent-to-own store? Stress the benefits you offer *now*. Remember: Until those customers stop, all that work you've done — training, merchandising, advertising, cleaning and buying — doesn't mean a thing. You must first get them in the door before any of your other hard work can pay off.

Windows

Make them work for you. They should stand out. Use colors that are bold and bright. Hot red letters on a yellow background work well. Look at windows the next time you're out for a drive near sundown. Pay close atten-

tion to liquor stores, check-cashing stores, car dealers and pawn shops. These stores usually have the most enticing windows. Make sure you have your camera handy to take photos of the windows you particularly like. Window advertising works for your 24 hours a day. It represents the cheapest advertising dollar you can spend for the best return. (Tip: If you can't find a good sign painter contact SALE SIGNS at 1-800-346-8116 and ask for Steve Leinhart for one of their many pre-made rent-to-own signs.)

Exterior

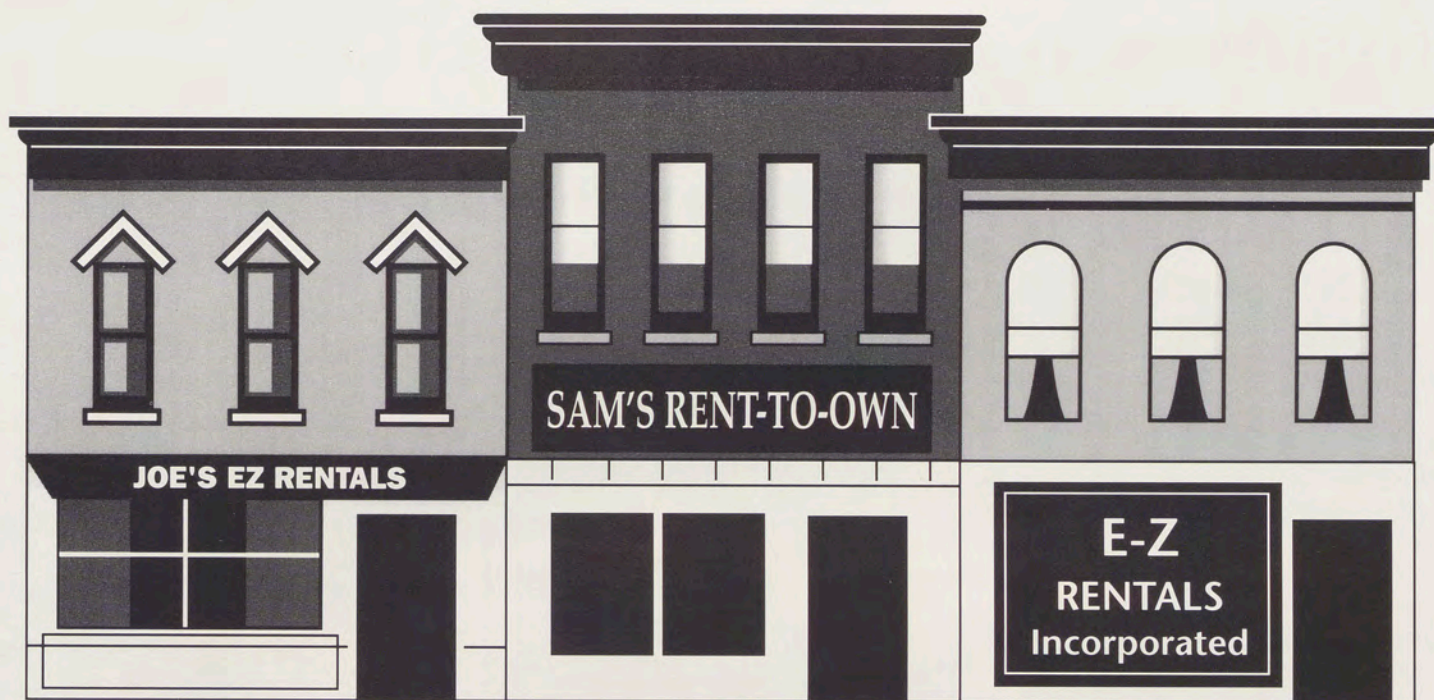
Your building can also be used to grab customers' attention. Banners, balloons and flags waiving from the top of the building all work wonders as attention grabbers. (Another tip: If you can't find a local distributor call my office and I'll see that you receive several catalogs.)

Another means of outside advertising is the old A-frame billboard. Before you build one be sure to check the local laws. If the laws regarding outside banners, flags or balloons are very strict for your location, try the American flag. Put up several American flags on the top of your building — or one big one. Even the strictest laws can be bent with Old Glory's help.

Music is another outside attention getter. The music should appeal to your customers. Sight and sound are your two best methods of getting the attention of passers-by.

Interior

Now that we have the customer curious enough to come into the store, we must continue to keep his attention.



The inside appearance and atmosphere are as important to your success as the exterior. When a customer walks into your store, what is his first impression? The old adage is true: "You don't get a second chance at a first impression." Having your RTO store set up right is the key to consistent BOR (balance on rent) growth.

Every item should be priced to rent or sell. A 10-year-old should be able to buy it and a 10-year-old should be able to sell it. Pricing can give you an extra salesperson. It can also help ease the floor confusion experienced by many companies when they have a high turnover in employees.

Highlighting your merchandise with special displays, crepe paper from the ceiling, and flashy signs and lights can really help. You can make decorating the store a contest for your employees. Give them \$20 and see how far they can stretch it. One store in Florida tried this approach for Halloween and the employees had a great time making their ideas work. One went to the HBO (Home Box Office, a cable movie channel) studio and picked up some free

posters. Another bought crepe paper and highlighted a stereo special. Everyone participated, and the company benefitted.

Not all ideas have to be original. (In fact, few really are.) Try going to some of the specialty stores in your area. A stereo store, for example, can give you valuable ideas on how to make your audio department look sharp. Go to a furniture store and take note of their different arrangements. Some stores, especially the national chains, spend thousands with interior designers and decorators.

Music

Is your store deathly quiet — or does it feel like a place your customers could enjoy? Music can help a customer relax. If a store is too quiet, the customer can feel awkward talking to other people. They, either consciously or unconsciously, believe your people are listening in on them. Make sure the music appeals to your customers. You want them to come in and like what they see and hear. In many cases, this can be more important than competitive pricing.

Reinforcements

Now that you've set the mood and highlighted those specials, it's time to look around for those reinforcement signs. These are signs outlining benefits — placed all around your store — and reinforcing what your program does for the customer. The low-cost approach might be to buy three or four poster boards and assign an employee with good lettering skills to write several benefits on each board. Place them strategically in high-traffic areas.

Merchandising

Look at your store from this standpoint. In rent-to-own you're likely to have four basic categories — brown goods (TVs and stereos), white goods (appliances), upholstered (furniture such as couches) and case goods (any furniture product made of wood, such as bedrooms, coffee table sets, dinettes, etc.). Every square foot of your store should be carefully designed based on three factors. First. What product will yield the greatest APU (average price per unit) per square foot? Second. What

Continued on page 20

Insurance options for RTO can resemble confusing maze

Rent-to-own companies, dealers must look at many different avenues

By John Gormley

Webster defines insurance as "coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril."

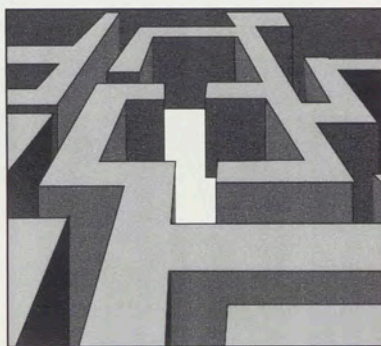
Rent-to-own dealers, like all businessmen, must concern themselves with standard insurance needs such as property and casualty and employee healthcare coverage. (For more detailed information on these aspects of insurance, see related stories in this issue.)

But many RTO dealers also feel the need to insure their merchandise once it leaves the store — and is in the hands of the renting customer.

There are a number of alternatives dealers can pursue to protect their merchandise against damage and burglary, even though it may no longer be under the store's roof. That's good, because individual stores aren't locked into one common solution that, depending on the situation, may not be a solution at all. It can also be bad, since all the choices — along with the benefits and potential pitfalls — often prove to be a confusing maze.

Almost any reputable insurance carrier can handle standard business coverages. The "specialty" type of coverage geared toward the rent-to-own market, however, is a much more narrow field. Insurance experts call this "monoline" coverage.

"Monoline means it's single; it covers one thing," said Alan Stein, president of Insurance Strategies, Inc., in



Coral Springs, Fla.

Stein says monoline coverage is essentially the opposite of blanket coverage, where one company handles all aspects of insurance for a client. "Most companies won't issue those kinds of policies," Stein said. "That's why the monoline type of coverage has come into effect because they (RTO dealers) can't provide their customers with any coverage through their regular carrier."

A typical scenario has one carrier underwriting basic business coverage for an RTO chain — such as property and casualty insurance — while another company covers the merchandise that leaves the stores under a special "renter's insurance" policy.

Renter's insurance protects both the RTO company and the customer since the merchandise is replaced through an insurance carrier and the customer is not held liable for basic kinds of damage or burglary.

Three main types of "specialty" insurance approaches have been prevalent in the rent-to-own field — damage waiver (which is not considered true

insurance), bonafide renter's insurance and vendor's single-interest policy.

Here's a basic overview of all three types of approaches:

Damage waiver

Damage waiver is a direct agreement between the RTO store and the customer. Typically, the customer pays a small fee in addition to the basic rental contract to cover the rented merchandise. A damage waiver will exempt the customer from liability on a rental, but generally will not provide for replacement of the lost or damaged unit.

Some state courts have held that a damage waiver agreement is, in essence, selling insurance coverage, and state insurance commissions all have regulations that require sellers of insurance to be licensed.

The concept of damage waiver in rent-to-own is broadly similar to that of the car-rental counter where customers can elect to purchase additional coverage during the rental period. But a collision-damage waiver, which covers damage to the rented vehicle, is sometimes considered true insurance. The rent-to-own damage waiver is even more of a gray area.

"In essence, I guess you could call it almost like a contractual waiver," said Stein, "and a number of states say that a contractual waiver is insurance. But it really hasn't been tested. So what you have is the conservative dealer saying, 'Well, we don't want to be the test case; we're going to use the insurance.' And then the liberal ones will say, 'Well, when they catch me I'll stop.'"

Renter's insurance

The main differences between damage waiver and renter's insurance usually mean that with renter's insurance:

- A licensed insurance company sells a policy to the RTO dealer, and that company handles premiums and claims for the dealer and his customers; and
- The customer isn't liable for damaged property — and he also is eligible for a replacement unit under terms of the coverage.

Voyager Insurance is the undisputed leader in renter's insurance. "We've got the largest portfolio of (RTO) customers," said Don Crawford, Voyager vice president and national sales manager — rent-to-own. "We're probably pushing 4,000 locations now — all rent-to-own customers. It's definitely a specialty area."

Crawford says his company has done the research necessary to help rent-to-own companies and dealers cover the bases. "We're filed and approved by the insurance commissioner of each state," he said. "We help dealers out with any kind of problems. We support each state association; we go to meetings with the state associations. If anyone's got questions, we're there to help."

Under Voyager's plan, the rent-to-own dealer typically charges the customer 5 percent of the payment, with \$1 minimum. "Then the merchandise is covered against fire, wind, lightning and burglary," Crawford said. "And if the merchandise is stolen or burned up or whatever, we replace the merchandise to the dealer at cost plus 10 (percent)."

A drawback in some states is the difficulty of obtaining an insurance seller's license, along with the differing interpretations of exactly who must carry a license. In Kentucky, for example, a 40-hour class and passing grade on an exam are mandatory before an insurance license can be issued. Couple those kinds of licensing regula-

"The area that he (RTO dealer) needs to be concerned about is the legality of offering an insurance product in his store ... And then he needs to evaluate that carrier that is insuring the risk."

— John Ihrig, president,
Hi Sage Marketing, Inc.,
provider of a rental insurance program

tions with rent-to-own's traditionally high turnover rate and it can mean real headaches for dealers trying to ensure that their operations are in constant compliance with state insurance laws.

What are the basic things that an RTO dealer should look at when considering his insurance options on rented merchandise? "The area that he probably needs to be concerned about is the legality of offering an insurance product in his store," said John Ihrig, president of Hi Sage Marketing, Inc., which provides a rental insurance program out of San Diego, Calif. "The legality issue: Do I have to be licensed or not? And then he needs to evaluate that carrier that is insuring the risk. Is the carrier solvent? Is it a real insurance company?"

Ihrig says that, in the television rental business at least, "there really is (only) one carrier for property insurance going out the door and that's Voyager. That is an excellent insurance company."

Vendor's single-interest policy

Under this solution, the customer is not technically buying insurance, and therefore the RTO dealer is not selling it. The RTO dealer is buying a policy that will cover those customers who elect to participate in the program.

Multi-Guard Insurance is a company that approaches RTO specialty coverage in this fashion. "We are writing a single-interest coverage to protect the interest of the vendor — the rental company — against specific losses while their equipment is in the hands of a

renter," said H. Lee Bailey, executive vice president of Multi-Guard. "In most cases, the rental company is by contractual agreement modifying their rental agreement to eliminate the possibility of the customer for damage under given, certain losses — in exchange for a fee."

This approach has some parallels to a blanket-coverage arrangement.

"The concept is almost identical, except it is not a blanket coverage," Bailey said. "It is an optional coverage, in this case. If the customer chooses not to participate in this program, then they're fully responsible. If they choose to participate then they have certain risks eliminated from the contract which, then, the (RTO) company reinsures through us."

Store customers can elect to participate in the Safe-Guard program to protect the merchandise while in their possession. The store then purchases the Multi-Guard coverage which protects the merchandise of those with the Safe-Guard option.

"Basically, what they're (RTO stores) doing is charging a fee for that modification (to the rental contract). Then, because they have additional risk, they in turn insure those risks that they've just assumed. So they're just basically passing it on."

Bailey believes the vendor single-interest policy avoids some of the legal issues of other methods. "In this case, there's not any question because there is no insurance sale or selling going on

Continued on page 34

(Editor's note: This is the fourth in a regular series of articles profiling APRO members, attendees at conventions and seminars and prospective members. D.J. Thomas, assistant director of member services, conducted the interviews.)

Scott Salvesen Santa Maria, Calif.



Scott Salvesen, Television Merchants, Inc., Santa Maria, Calif., is married. He and wife Kristin have three children; two sons, Nicholas (7) and Trevor (5); and a daughter, Alyssa (3). Salvesen started in rent-to-own with Curtis Mathes in 1982 and went independent in 1985. Salvesen says the concept of rent-to-own appealed to him because it seemed a lot more personable than retail, and he values the opportunity to develop closer relationships with customers. The couple owns four stores in California. Salvesen's immediate goals include building BOR (balance

on rent) and reducing debt as much as possible.

Q. What has contributed to your success thus far?

We are successful because we really enjoy the business and we value our customers. We have been in business for 10 years and some of our customers have been with us for all 10 years.

Q. What kind of program does your company have for in-house employee training?

I don't think we can ever overtrain our employees. Training creates consistency. If all your stores operate the same way they are easier to manage. We certainly try to train our employees in individual stores on a weekly basis and have a little bit more elaborate setup monthly. We have found a real need for training, but it is also something very hard to manage. It is difficult in-house to make preparations for an effective training program, so we purchased some self-paced tutorial software programs with workbooks. Our employees do appreciate the training because they learn about the products and it gives them a sense of product knowledge and helps them handle customers more effectively.

Q. APRO has developed a certification program for the rent-to-own industry. Where do you think this new program will take RTO dealers, owners and employees in the 1990s?

I think it is great! Several reasons why ... As our industry grows you are going to see a lot more people moving around within the industry and having that certification as a rental manager will speak very highly of them. If you have an accounts manager that can declare his credentials then it is a feather in your cap. This will definitely bring more professionalism to this business.

Q. How do the state associations play a role in this industry?

The role of the state associations should be to stay abreast of the legislative issues in their state and inform the dealers. The dealers need to be informed of all that is going on in their states.

Q. What do you see in the '90s for the RTO industry?

I believe the '90s hold several changes. The legislation will force us to be a more regulated business. This should not deter RTO as a whole, but will deter some dealers who are not willing to adapt and change with the industry.

PR

Darrell Tissot Hillsboro, Ohio



Darrell Tissot, Countryside Rentals, Inc., of Hillsboro, Ohio is married and has two children in college. His wife runs a home-decorating center which they started 20 years ago. He graduated from Morehead State University and worked for a large oil company in industrial sales. Tissot later started his own construction company. In 1985, along with an acquaintance, Tissot decided to open a rent-to-own store which, today, has expanded to five stores with a central warehouse. Last year, Tissot bought his partner's share of the business and it has become a privately held

corporation. Since the buyout Tissot says his gross receipts have almost doubled.

Q. Why are you so successful?

Good people. In the early stages our company was successful because we devoted a lot of time and effort and took out little money. As we grew our success paralleled most successful companies that have grown with good people. The heart of the success of any company is the people that operate it. Not just the owner, but the accounts manager, warehouse man and all other people throughout the company. We are lucky in our company that we are pretty much a family type atmosphere and are blessed with a lot of good people.

Q. How do you feel about sending your employees to a one-day regional seminar training program?

I think it is a great idea. I am of the opinion that there is never anyone who is overtrained. You can't be overtrained for any job or overdressed, either. You can always take a tie off, but you can't always go and put one on. Training is the same way. I would love to have more localized training. I can't afford to send a group to Texas, but I can send a group to Indianapolis or Louisville. If the states would promote this, they could have regionalized seminars in each state. I think most people would agree it is worthwhile.

Q. What do the 1990s hold for the RTO industry?

Continued competitiveness, particularly price competitiveness. I wonder if we won't see stratification of RTO. Traditional RTO has serviced anybody — (and) that has been the big risk — but we have been able to get the price to cover the risk. We will see in the future a very, very narrowing of that price and, consequently, a lot of people will be unwilling to accept the range of risks that we have seen in the past. We are also going to see elimination of some of the people originally sought to serve in RTO; a little bit better and more substantial income type of people to rent to ... I see a whole lot more price competition in the future.

Q. What is Darrell Tissot's philosophy?

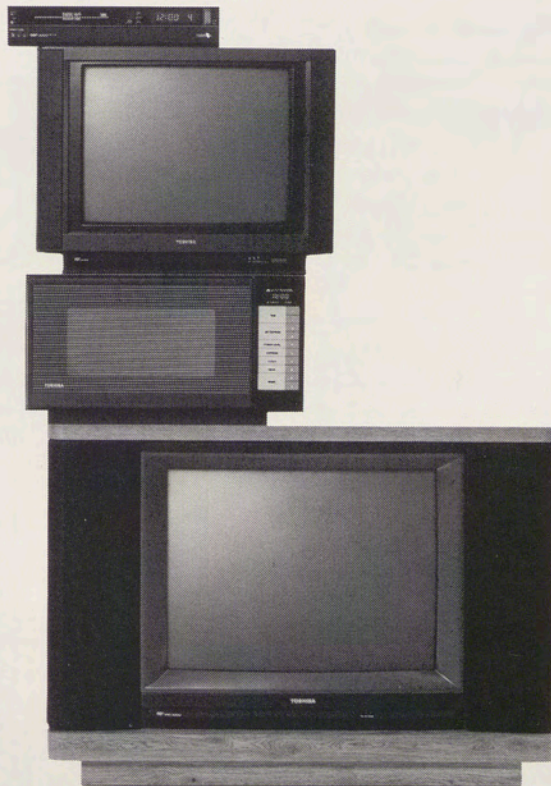
The people who work for my company don't work for me — they work with me ... The basic backbone of any company is the people on the firing line dealing daily with the customers. Without good people you are destined to failure.

PR

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1987



1989

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Risk-of-loss issues important to rental dealers — and others

Damage waiver fees, leased property insurance are parts of big picture

By Ed Winn III

Risk-of-loss issues, including damage waiver fees and leased property insurance, are on the minds of many rent-to-own dealers these days. These issues are also on the minds of insurance agents, industry lawyers, attorneys general and state legislators.

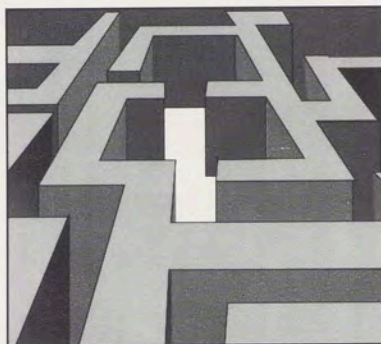
Since so many people are spending time thinking about these things, it is not possible, yet, to offer any final pat, or even complicated, answers to the questions raised. It is possible to crystallize the questions. This article will do that.

The legal relationship established by a rental agreement between the dealer and the customer is that of bailor and bailee. The law of bailments has had a long and venerable history in the common law of the United States and of England. These common-law rules developed in the absence of an express contractual agreement to the contrary.

In a bailment for the mutual benefit of both parties — a typical television rental transaction, for example — the customer bailee has an "ordinary" duty of care toward the TV. That means the customer must treat the TV with the care and attention that a reasonably prudent person would have for his own property under similar circumstances. In the absence of a contractual agreement to the contrary, then, a dealer would have to prove that the customer was negligent in order to recover for loss of or damage to the property while in the customer's possession.

Proving negligence can be difficult. If, for example, the set was stolen, and the customer was not home at the time of the theft and had left the dwelling locked, the dealer would be hard-pressed to prove that the customer failed to use ordinary care toward the property.

The common-law answers to risk-of-loss questions in bailments evolved over hundreds of years and relied heavily on who was in the best position to safeguard the



property — and to what extent that person was benefiting from the bailment. But the common law never said that the parties to a transaction could not reallocate the risk of loss by contract. The parties to the transactions can agree in advance to shift the risk for various losses any way they choose.

Indeed, many contracts creating bailments take great liberties with common law risk-of-loss allocations, including rent-to-own agreements and most other rental and lease contracts, as well.

In most rental agreements there is language purporting to shift almost all risk of loss onto the customer. The only risk that rental dealers do not shift is for ordinary repairs necessary to maintain the property. By contrast, many vehicle leases do, indeed, shift *all* risk of loss onto the lessee, including all maintenance and repair responsibilities, making the lessee, in effect, an insurer for the car.

It is the language used in the contract that determines exactly which losses the dealer has shifted onto the customer besides the common duty not to treat the property negligently. Simple, all-inclusive language would likely suffice.

"You, the lessee, are responsible for loss or damage to the property from all causes whatsoever."

Dealers have tended to add language to

explain more fully the extent of a customer's exposure — if only to highlight the section and to urge the customer to take care of the property. It is to let customers know in advance the consequences of a loss that dealers have added such language as "mysterious disappearance, damage by pets, intentional damage done by family or friends," etc.

There is certainly nothing wrong with such language. It underscores the shifting of the risk of loss for losses beyond the customer's control, which is perfectly legal. Lessors, generally, not just rent-to-own dealers, do it all the time.

The risk-of-loss clause in the agreement, if properly explained, ought to urge customers to be particularly careful with the rental property, since they are liable for losses no matter what the reason. However, similar language exists in all car-rental contracts, tuxedo rental agreements and all other short-term rental agreements.

Many rental agreements fix the measure of damages for lost, stolen or destroyed property at the fair market value of the property at the time of the loss or destruction. This is no more than a summary of the law of damages for breach of contract and is probably enforceable. Other contracts also state, less correctly, that a customer is liable for the fair market value of the property if it is damaged. This is not an accurate statement of the law and is probably not enforceable.

Ten years ago most dealers were content with a contract clause shifting the risk of loss from all causes, except ordinary repairs, onto the customer, a policy of diligently investigating reports of theft or mysterious disappearance, and acceptance of the notion that a lost TV was a charge-off. Few dealers went to the trouble of getting judgments against customers who had lost TVs, since the cost of the judgment outweighed the likelihood of collecting any

Continued on page 46

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Examining each part of insurance industry reveals RTO needs

Nature of the rent-to-own business makes some types of coverages key

By Barry Gambini

If it weren't for those monthly insurance premiums for employee benefits, vehicles, workers' compensation and the business package policy (that supposedly covers everything else) our cash flows would look considerably better.

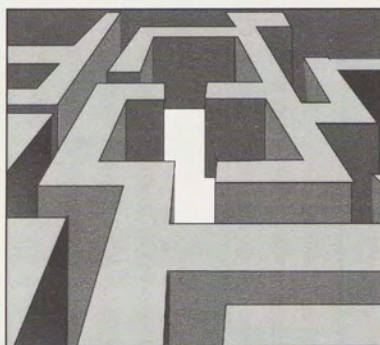
As the previous owner of RTO, Inc., I found it somewhat distasteful to write checks to insurance companies for products I wasn't sure I wanted or needed. Now that I am on the receiving end of the same checks from other owners of rent-to-own businesses, I get satisfaction from knowing that clients who purchase coverage through our agency have done so based on a thorough understanding of their needs and requirements.

I am helping my clients to become more informed consumers by explaining the many options that exist and by answering their questions. I direct them to purchase only those coverages that are necessary for survival, and remind them that insurance should never be purchased for an exposure that could be assumed or passed on to another party.

By examining each part of the insurance industry, I've been able to identify and explain several key areas that should be of interest to those in the rent-to-own industry.

Employee benefits — major medical

When it comes to employee benefits, all employers are asking the same



question: "Why are costs so high?"

Medical and medically related benefits cost employers an average of \$2,748 per employee last year. The latest projections suggest that this amount will double by the year 2000.

The average rate increase consists of medical cost trending (currently 25 percent annually) and the overall claims experience of the group. This cost increase is a result of five major components:

- 1) High cost procedures/technological advances. Transplants, bypass surgeries and neonatal care for premature babies are all new advancements in the effort to increase and extend the quality of life.
- 2) Cost shifting. Budget cuts in government-funded programs have forced physicians to charge inflated rates to patients with private health insurance to compensate for the perceived loss of revenue generated by the uninsured.
- 3) Malpractice insurance/legal services.

The cost of malpractice insurance has increased by 60 percent over the past five years. This increase is passed on to the patient in higher office visit charges.

4) Heavy utilization/unnecessary procedures. Extensive testing assists a physician in diagnosing and protects against error and lawsuits. Aside from this, the rich benefit programs of the 1970s and early '80s (full-pay benefits such as out-patient surgeries, PCScards, accident provisions and low co-pay deductibles for preferred provider organizations — PPOs) have been an incentive to utilize indiscriminately rather than prudently.

5) AIDS. The buzzword of the '80s. It is estimated that by the year 1991 the cost for the treatment of Acquired Immune Deficiency Syndrome will have exceeded \$1.6 billion. By the year 2000, this is expected to increase to \$500 for each person on the globe.

In light of the staggering statistics and gloomy forecasts, it's important for employers in the rent-to-own industry to understand that they do have options. They can alter the type of program they have to limit the "gravy" benefits while still maintaining a quality program that controls costs.

Larger employers (50 or more employees) should be encouraged to explore self-funding options with specially designed benefit programs to meet their needs. Many employers appreciate both the type of control this gives them and the increase in cash

flow they experience.

Smaller employer groups (less than 50 employees) should choose a carrier that is stable in the market, preferably a large life insurance carrier. Small group carriers offer several plan designs to choose from in a myriad of price ranges. Ask to see the rate history over the past two-year period for each proposed carrier.

It's important to remember that the cost of employee benefits can be shared with your employees. It has been my experience that more employers, both small and large, are resigned to the fact that they can no longer assume the burden of rising costs on their own. Cafeteria plans or Section 125 programs offer employees the opportunity to have their portion of insurance costs withheld from their pay before rather than after taxes by means of a simple paper transfer. The bottom line is a savings in taxable dollars for both the employer and the employee.

Let your employees know that your benefit program is designed to protect them from assuming a catastrophic loss, and not to assist them with the nickel-and-dime office visits for the common cold.

Vehicles

"What are some ways I can cut auto insurance costs and still be protected?"

By absorbing more of your losses through higher deductible selection you will not only receive premium credits but you'll also limit the number of claims the insurance company is aware of. This will improve your loss history and allow for more experience credits to your premiums. This could make a difference between staying with a preferred or standard insurance company or being placed in a nonstandard market that surcharges for bad experience.

There are unusually good pricing breaks for \$250 deductible on comprehensive and \$500 or \$1,000 on collision. A deductible of \$1,000 for property damage will also help reduce premiums by taking care of the small "fender benders."

I see many store owners purchasing medical payments and high limits of uninsured motorists' bodily injury coverage on vehicles driven and occupied only by employees. These coverages should be fully understood and

carefully evaluated as to need, since all employed vehicle occupants are required by statute to be covered by workers' compensation.

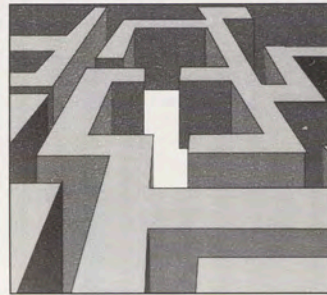
"How do I select driving employees?"

This is a difficult task because of the rent-to-own industry's high employee turnover. Care must be taken in selection of good drivers. By requiring all job applicants to bring a copy of their driving record when they apply, you will screen out many undesirable applicants, thus saving you the time and many of the application process. To allow an employee of yours to operate one of your vehicles without knowledge of his driving record is very risky. As a rule, there should be no more than two minor violations (such as speeding) within the past three years, and no major violations (such as hit and run or drug/alcohol related) within the past five years. People are not bad drivers *part* of the time. They are either good or bad, and whether the violation happened on personal or company time has no bearing.

Request that your agent check all drivers on a regular basis and that you receive copies of each MVR (motor vehicle report). There are driver selection programs to assist you in setting up a selection procedure. If your agent does not have one, feel free to request one from us.

"What is, and why do I need, non-owned and hired auto coverage?"

This is best explained by an example: Becky, "Joe's Rentals" secretary, is paid minimum wage and has only a minimum auto liability policy or none at all on her own car. She takes the mail to the



post office and hits a pedestrian, severely injuring him. Since she was on business for Joe, he is partially responsible. If Joe has non-owned auto liability coverage, it will respond over any insurance Becky might have. As you can see, it's a good idea to screen the driving records

of employees who may drive their vehicles on company business. It is also a must to require that they have insurance on their own autos. The largest auto losses our agency has seen have been non-owned auto losses.

Your auto insurance costs could be greatly reduced by careful driver selection and absorbing as much of each loss as your cash flow will permit. In addition, your business will become a preferred risk, and therefore more appealing to the insurance carriers with the lowest rates.

Workers' compensation

"How does an "experience modification" factor affect me?"

Most states have an experience rating plan for businesses that generate a certain premium over a set amount of time. The size and time differ with each state. In general, in states where you are eligible for a modification factor, your losses (including those reserved and not paid yet) are compared to your premiums for a number of years. This results in a ratio of loss versus premium which is converted to a debit or credit modification factor applied to the standard workers' compensation rates. I have seen store owners with a 200 percent modification factor, therefore paying twice the standard rate.

"How then can I help keep my losses down and help my experience modification factor?"

This may be the No. 1 problem for most rent-to-own stores, primarily because of poor hiring practices. Requiring pre-employment physicals, including drug testing, by employer-

Continued on page 34

item will have the best potential for keep rate? Third. What product do you have that could be considered high in deal inventory?

Let's start with APU. Case and upholstered goods have the highest potential here. Neither one of these categories is easily shopped. Model numbers and manufacturer's names aren't always on each of these. That's why it's more of a case of what the market will bear than worrying about what the competition is running. Brown goods and white goods are still an industry staple. Consider your situation and decide what should have the best location in the store. If, after looking at your history, you think white and brown goods are your highest volume items,

then display them in those key locations.

Keep rate is a major point in rent-to-own and one that has a lot to do with merchandising. If a woman has to choose between taking back her washer and dryer or her living room set, what do you think it'll be? Usually, the washer and dryer go first. After all, she can still take her wash to the laundromat, and her friends won't have to sit on the floor. Don't count out brown or white goods. If you can only rent one item at a time to a person, what direction would be best for you? Merchandising and putting yourself in your customers' shoes can ultimately improve your keep rate.

Inventory

Some might forget that this can also influence your floor arrangement. When you get too much of one product sitting in the back it's time to give it star status on the floor. And remember: When the floor looks good, it's like adding an extra salesperson to your staff. By advertising your merchandising and merchandising your advertising you will see not only greater BOR, but an increase in your bottom-line profit.

Cost-effective advertising

Your store is finally in shape. Now's the time to advertise. But before you go out and start spending that advertising

Management services who's who

Coordination is the key to operating a rent-to-own store. This requires a number of management services from insurance to point-of-purchase signs, to advertising and warranty programs. This up-to-date listing of the management services companies that work with rental-purchase is limited, with one exception, to APRO associate members, APRO convention exhibitors and APRO publication advertisers.

*+YChrysler First Wholesale Credit

1105 Hamilton St.
Allentown, PA 18101
1-800-FINANCE
Inventory financing

+YColor Mail/Katz
18590 Cranwood Ct.
Cleveland, OH 44128
(216)475-8920
Print advertising

*+Hi Sage Marketing, Inc.
(Rental Insurance Program)
5665 Oberlin Dr. #202
San Diego, CA 92121
(619)457-0711
Rental Insurance

*+YInsurance Mart
6045 Ridgewood Rd.
Jackson, MS 39211
(601)956-5093
Rental, general business insurance

*+Insurance Strategies, Inc.
7522 Wiles Rd.
Coral Springs, FL 33067
(305)344-7900
Rental insurance

+YLearning Power

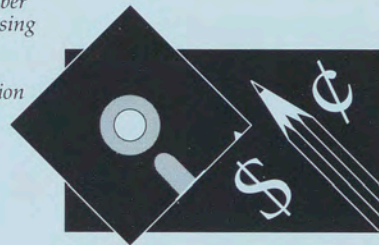
72 Country Place
Springfield, IL 62703
(217)529-4650
P.O. Box 1500
Big Pine Key, FL 33043
(305)872-2643
Employee training literature and videotapes

*+YMcDonnell Douglas Finance Corp.
10901 Lowell, Suite 280
Overland Park, KS 66210
(913)661-9234
Rental financing

+YMarcon Group
P.O. Box 661
Mt. Pleasant, SC 29465
(803)884-9361
Management, employee training and seminars

+YMulti-Guard Insurance
P.O. Box 34517
Louisville, KY 40232
(502)589-2999
Rental insurance

+YSaf-Write Forms & Systems
1209 S. Ridgewood Ave.
Daytona Beach, FL 32014
(800)292-3676
(800)521-3676 (Florida)
Rental business forms



+Service Solutions

235 N. Nova Rd.
Daytona Beach, FL 32114
(800)AUDIOTV
RTO equipment service center

YSouthern Accounting Systems
P.O. Box 703
Muscle Shoals, AL 35660
(205)383-2029
Accounting services

*Surrett, Walker, Creson & Colley
800 Trust Company Bank Bldg.
Augusta, GA 30901
(404)722-3301
Legal counsel

YT. Buff & Son Promotions
P.O. Box 1288
Parker, CO 80134
(303)841-6869
Advertising, promotions

*+YTransamerica Commercial Finance
13760 Noel Rd., Suite 919
Dallas, TX 75240
(214)458-5850
Inventory financing

* = Associate member
+ = Advertiser
Y = Convention exhibitor
> Consultant

*YTriad Learning Systems
122 W. Carpenter Frwy., Suite 501
Irving, TX 75039
(214)541-0123
Consulting and employee training

*+YTRIB Group
3783 Presidential Parkway, Suite 113
Atlanta, GA 30340
(404)451-4302
Buying group

*+YVoyager Insurance
P.O. Box 2918
Jacksonville, FL 32203
(800)237-8314
Rental, general business insurance

>Harry Weisbrod Associates, Inc.
10300 N. Central Expressway, Suite 350, Bldg. V
Dallas, TX 75231
(214)373-0435
Wage-hour consulting

*Whitsell & Company
2301 E. Lamar Blvd., Suite 200
Arlington, TX 76006
(817)640-4454
Rental accounting

dollar, consider some inexpensive ways to reach customers. Your employees, and staging various events, can amount to an advertising goldmine.

- Account managers should carry a notebook in their pocket. Whenever they leave a customer's house, they should take notes on what else that particular customer could use. When they get back to the store, the account managers can put the notes in an envelope for that month. Sixty days later, check the envelope to see if those customers would be good add-on prospects.

- Creating a Saturday event can bring in the customers. Try dressing up a person in a costume and having them give out balloons to the children. Let them wave to people outside the store. Getting their attention is half the battle.

- Go to the local churches and convince one to have a bake-out in your store. Allow them to advertise the event, with your help. It doesn't cost you a thing, and it's a great traffic builder.

- The Junior Chamber of Commerce can put a promotion together with you. Chamber volunteers can sell hot dogs and soft drinks and offer prizes. They'll get the money from the concessions; you'll get the rentals. Again, it's creating traffic.

- Hand out four-page fliers that double as children's coloring books. Give a prize to the best-colored flier. The prize is awarded at your store on the first of every month.

Get those referrals working for you by using money or prizes. Get your people to do it consistently. You must set up some form to track this. Otherwise, there is no accountability.

- Another employee idea is to give your manager a small budget to spend on setting up his own promotion. Try setting a limit of \$500 to \$100. You might be surprised how creative the promotion can be, despite the limited budget. An added bonus: The manager sees, on a small scale, what you as owner are going through.

- At your next storewide meeting discuss various ways to bring in new customers. Try setting up a contest to

"Our windows tell who we are, what we offer and the merchandise we carry. We get a lot of potential customers straight off the street who say curiosity brought them in."

— Jim Jones, owner,
AAA Company, a three-store chain in Texas

award an employee bonus to the best promotion costing less than \$50. Also, have each employee make five phone calls to past customers or referrals before they go home each day. This will not only mean increased BOR, but it will also help your people better handle the incoming calls. Those old applications are worth gold. If they're still at their job and address, then they're a prospect.

Even if you're a small-chain owner, you can tap into all this big-time creativity. Just keep your eyes and ears

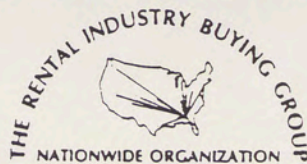
open to what's around you. Jim Jones of AAA Company, with three stores in Texas, does.

"When you are small like we are, there aren't a lot of advertising dollars floating around," Jones said. "How our store looks, the merchandising we have on the floor and referrals dictate how much business we do in any given time. We depend on placement and signs to move merchandise. Our windows tell who we are, what we offer and the merchandise we carry. We get a lot of

Continued on page 34

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Insurance costs can be lowered with risk-management approach

Exploring avenues of exposure, and taking preventive steps, advisable

By Robbie Bratcher

January, 1980 — Ringggg ... "The Insurance Mart, may we help you? Yes, we write insurance coverage for rental stores."

And we did. The concept was new to most insurance company underwriters, and they were not too willing to take the risk we were offering to insure. But we persisted.

We realized that one of the reasons members had joined forces to form APRO was to enable them to accomplish things as a group that they couldn't do alone. We were committed to the same goal, and that has helped maintain an insurance market for the rent-to-own industry — through the early years to the present.

When the RTO industry was younger, loss control was not a priority. Consequently, insurance companies got a bad image of the industry. With continued work from our side, combined with dealers' efforts, we've seen quite an improvement.

The rent-to-own industry has a lot of vehicle and workers' compensation exposure, and this seems to be the area of greatest losses. We have recommended loss-control measures and studied to identify problem areas. Everyone is concerned about controlling insurance costs, including insurance companies. Despite safety efforts, vehicle repair and medical treatment costs have continued to rise dramatically. Studies have shown that between 1981-88 labor costs for auto repairs jumped almost 130 percent, physicians



Robbie Bratcher, right, The Insurance Mart, and John Berger, Travelers, at 1989 APRO convention/trade show.

fees rose approximately 65 percent and hospital room costs increased 83.5 percent.

Another element affecting rising insurance costs has been fraud, a several-billion-dollar-a-year "business." Common scams in this country have been staged auto accidents, false medical charges, arson and phony auto thefts. The growing number of lawsuits and the high-dollar settlements — both in and out of courtrooms — have also fueled rising premiums.

We've experienced times when insuring some risks was impossible at any price because of extremely bad losses. Even today, with good risk management, there will be the "unusual" type of losses. Companies as well as agents have been seeking solutions to the problems.

Today's insurance markets have become more specialized. Companies have found certain niches or areas in which they are interested in taking risks.

Agents, also, have begun to realize that with the complexities of coverage in business today, there's a need for specialization like never before.

Agents need to understand the everyday needs of clients, and explore every possible avenue of exposure. Clients, on the other hand, should select an agent they have confidence in; one who knows their business and the risks involved. Many times, because of busy schedules, there isn't enough time to review coverages you have or discuss those you might need.

Having an agent who knows your business and specializes in those coverages can better determine

the needs you might have. Some agents have expertise in one area but don't understand others. Specialization is recognized in many other professions and services. It's no less important in today's insurance maze.

Avoid "price shopping" only. In the past two years, a record number of insurance companies have become insolvent. We all like a bargain, but if the company isn't available to assume the risk when we need it, we assume the risk ourselves. A financially sound, stable and respectable company may not always have the lowest rates. But it's more likely to be around when needed.

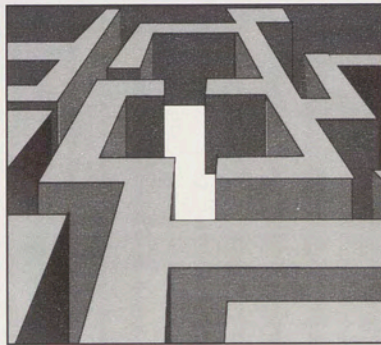
RTO dealers measure their performance by repeat business. Any businessperson who sells products or services knows customer satisfaction and continued support (repeat business) is the lifeblood. Clients who renew coverage are casting a vote of confidence in their

insurance carrier, and this confidence just renews our commitment to hard work and providing better customer service.

"It makes you feel good to know that when you ask for something to be done it is taken care of, and you don't have to wonder about it," said Bradley Fields of Action Rentals, a client of The Insurance Mart.

One area that insurance addresses is client losses because of crime, and this aspect is becoming more acute. According to the Insurance Information Institute, a burglary occurs every 10 seconds in this country, contributing to almost \$4 million in losses each day. In the United States, burglaries have almost doubled during the last decade. And, unlike lightning, thieves often strike in the same place twice.

Crime coverage, including theft or property, employee dishonesty, rob-



bery or theft of money and securities and computer fraud, aren't automatically covered on all policies.

Burglar prevention is making your business tougher to get into than the one next door. A silent central-station alarm that is answered within 30 minutes is preferred, but a good lock can be as much of a deterrent as an alarm. The lock should be a dead-bolt type, requir-

ing either a key or a knob to set it. The double-cylinder dead lock can be the most frustrating for a burglar because the lock must be opened by a key from either side, making it difficult for the burglar to get out of the building with any merchandise.

Bright outdoor and indoor lighting, and even motion detection lighting that floods an area with a powerful beam when activated, is another deterrent.

Safes are important for valuables or cash, but the best general practice is a daily bank deposit.

Property coverage is perhaps one of the most misunderstood insurance areas. "All risk" coverage covers all perils unless excluded, such as war, flood and deterioration. Earthquake coverage must be added, as well as flood. "Named peril" protection covers only those perils named in the pol-

Continued on page 44

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Group insurance a complicated issue that needs specialist's touch

Healthcare coverage a big concern for employers, employees alike

By Dave Clark

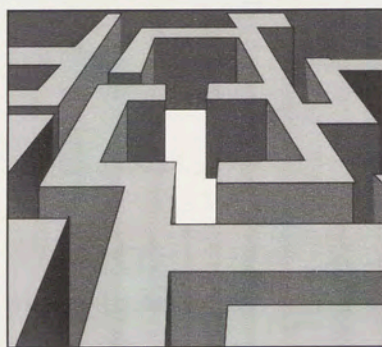
Group insurance has become a much more complicated issue for many businesses. This is, to some degree, because of the introduction of new types of benefit plans and the new terminology that goes along with them.

A contributing factor is the increased intensity of carriers investigating and evaluating the health conditions of group consumers. If employers are to succeed at securing and maintaining quality healthcare benefits for their employees, they will have to become more educated, follow certain procedures — and avoid pitfalls.

Two questions help us get to the heart of the matter. First: How can you secure a group health plan for small- to medium-sized firms without spending too much time and without encountering too many problems? And second: Once you secure a plan, what can be done to keep that plan on a long-term basis — say five years or longer?

Let's consider the first issue — securing a plan. How should you begin? Should you or your staff get out the yellow pages and start looking in the I's under insurance — phoning 10 different companies or agents? No. This is a shotgun approach. It's very time consuming and risky when you consider what type of person you may get on the other end of the line.

Companies that underwrite group plans are not necessarily able to point you in the right direction or guide you in your search. Calling different agents



at random is also a problem. In most states, agents/brokers who are licensed to sell individual life or health policies are automatically able to market and counsel in regard to group insurance. This isn't a problem for them. It can, however, be a problem for you. Too often agents are too eager to handle group situations even when they aren't qualified. It's like going to a divorce attorney to file for bankruptcy or going to a family dentist for orthodontia work.

Unless someone (particularly in today's environment) specializes in group insurance for firms, it's difficult for them to do the kind of job needed, both at the outset and over the long term, for their client. The insurance industry is in a state of change — more so today than ever. In fact, those of us in the employee benefits (group health) side of the industry spend a great deal of time monitoring these new changes — carrier's rates, plan changes, new plans and the laws governing employee benefit plans.

Our office, in any given month,

monitors the rates and plans of more than 100 carriers. Even with that kind of effort (which is only possible through a computer network), we find ourselves at dead ends from time to time. The best advice, when it comes to group health plans, is to go to someone who specializes in helping firms find and implement these plans. And this person, or organization, needs to be independent and not an employee or agent of one company. Is your firm too small for this type of specialist? Probably not. Our clients represent anywhere from two employees to several hundred.

Let's assume that you are in the care of someone who specializes in group. What next? Obviously, this person needs to get a handle on your situation. Do you have a current plan? How many employees do you have? Do you carry workers' compensation? Are there any health problems among your employees?

Once your representative assesses the situation, you both need to consider your wants. Deductible? Co-insurance limit? Maternity? Prescription card? HMO (health maintenance organization) type plan? PPO (preferred provider organization) type plan? Dental? After your wants are established, then the next two questions are perhaps the most important. What's the most important want? Which one will have the most impact on whether you can put together the overall plan you're seeking?

The one overriding factor: The health of the group. The smaller the group, the

more significant the health problems become. Small firms with employees who have had recent heart attacks, early onset diabetes, cancer and strokes can experience real problems in finding a group plan. Some firms searching for group coverage will no doubt encounter dead ends. But dealing with a specialist will reduce the chances of hitting one of these dead ends. For most firms, a specialist will overcome certain hurdles and deliver a competitively priced product backed by a credible carrier or provider.

Now let's assume you've nailed down a group plan that is acceptable — both in terms of coverages and rates. When this plan was installed you probably received either a six- or 12-month rate guarantee. At the end of that rate guarantee you probably got a rate increase. This is another area where a group specialist can be a real asset. That's because the specialist is in a better position to advise you on whether to accept the increase or attempt to move your plan.

There are, of course, times when it's better to stay with your present carrier. We have clients who have been with one carrier for as long as 10 years. This includes the last four years, when rates have been on the increase. No matter what carrier you move to, you're almost certainly going to get rate increases. To get the lowest rates all the time you'd have to move your plan every year. Is this practical? Of course it isn't. There are some risks to undergo every time you make a change. It's unsettling to employees and management. And making changes every year — or even less frequently — can cause problems in trying to get carriers to quote your group. More and more carriers are asking us how many carriers a customer has had in the past. If there are too many changes in a firm's past, the carriers are beginning to decline on offering quotes.

We see employers who change carriers frequently, primarily to save money. Sometimes they move to carriers who don't charge enough for their product and consequently end up in receivership — or simply refuse to renew.

Of course, there are instances when a plan should be moved. We move our clients from time to time, but it would be difficult to outline all of the justifiable circumstances. Cases that would probably warrant moving a group plan include the following.

- A carrier abruptly raises its rates in the 40- to 90-percent range. (This might occur because the carrier is suddenly aware of how deficient it is in terms of premium income. If our client is in

good health and has had reasonably low claims, we will move the plan.)

- A client has had a significant accident occur involving one or more of its employees, and the carrier raises its rates 50 percent to 100 percent in order to recoup the claims it has paid. (In this instance, if our client either no longer has this employee or if that employee is back at work and recovered, then we will move the plan.)

Continued on page 44

London Star Limited

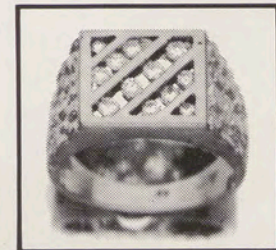
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Countdown to the future features fun-oriented lineup

APRO golfers to find July event in Orlando won't be all business

Walt Disney World's Magnolia Course has been selected as the site for the APRO 1990 convention golf tournament, set for Sunday, July 22.

As the kickoff event of this year's convention — which is set for Sunday through Thursday, July 22-26, and is referred to as "countdown to the future" — the golf tournament promises to be one of the

best ever conducted, according to Darrell Tissot, APRO member who helped put together the tournament.

The course's Mickey Mouse bunker, on the sixth hole, is known worldwide to golfers and non-golfers alike. Along with the competitive play and shotgun start, extras planned include coffee and doughnuts while loading the buses; a luncheon buffet; beverage cart; preloading of golf bags and posted pairings; tote board on completion of play; and a full line of Mickey Mouse accessories available as souvenirs.

Some of the more coveted awards will be a "fisherman's" trophy and, of course, the inevitable "gator" trophy.

"Mark your calendar, make your plans, bring your clubs and join with your fellow rent-to-own dealers, associate members and APRO staff for a fun-filled day at the Walt Disney World Magnolia Course," said D.J. Thomas, APRO staff member who has worked with Tissot on the tournament.

Photo courtesy Walt Disney World



Convention golfers to enjoy the Walt Disney World Magnolia Course.

Here's the tentative schedule:

Saturday, July 21

- 2-5 p.m. — Golfers turn in bags to hotel for shipment to course.

Sunday, July 22

- 6:15-7 a.m. — Golfers check in at hotel lobby; coffee and doughnuts available at busloading area.
- 6:30 a.m. — First bus departs for course; putting/chipping greens available; pro shop open.
- 7 a.m. — Second bus departs for course.
- 7 a.m. — Carts preloaded; pairings posted.
- 7:50 a.m. — Carts depart for designated holes.
- 8 a.m. — Shotgun start.
- 12:30-1 p.m. — Approximate end of tournament; posting of scores.
- 12:30-2 p.m. — Luncheon buffet.
- 1:30 and 2 p.m. — Buses return

Continued on page 31

APRO takes role in winter trade shows

APRO representatives participated in three major market shows during January and one during February, according to director of member services Debbie Hansen.

To better serve rent-to-own attendees of the national market shows, APRO booths were reserved and staffed for the:

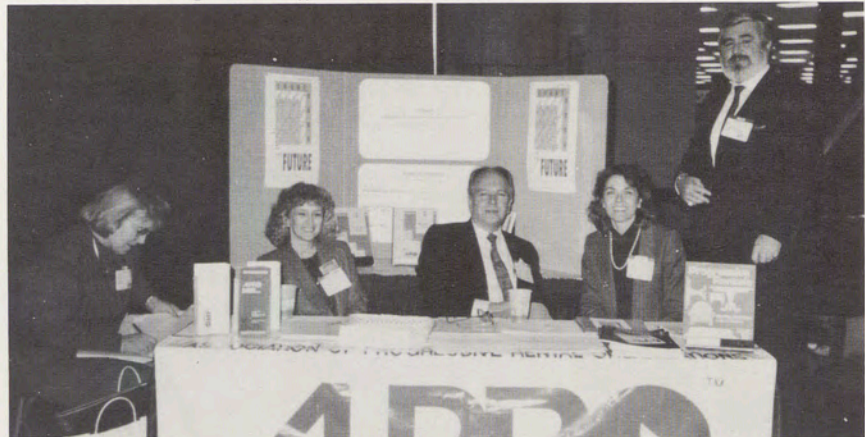
- 1990 International Winter Consumer Electronics Show (CES), Saturday through Tuesday, Jan. 6-9 in Las Vegas;
- The Dallas Winter Homefurnishings Market, Saturday through Thursday, Jan. 13-18 in Dallas;
- And the Atlanta Winter Furniture Market, Saturday through Tuesday, Jan. 27-30.

In addition, APRO's member services department helped make things easier for APRO members who attended the January shows by reserving blocks of hotel rooms at discounted rates and by setting up hospitality suites for rent-to-own attendees.

Sanyo Fisher USA, Voyager Insurance Companies, Transamerica Rental Finance and Colortyme were among the sponsors of APRO hospitality suites



President Ted Wilson, above and below center, represents APRO at winter trade shows, along with staffers and board member Mac McCullar, below right.



at these events.

Also, D.J. Thomas, APRO assistant director of member services, attended the Mississippi Furniture Market in Tupelo, Miss., during February.

The purpose of APRO's participation in these shows is two-fold, according to

Ted Wilson, association president. First, APRO staffers learn more about important product lines and RTO-related industries, such as furniture; and second, they are able to make APRO members' stays more convenient, which is a valuable member service, he said.

RTO vendors and exhibitors: Watch for the second mailing of APRO 1990 convention's 'invitation to exhibit' and reserve your booths.

1990 convention plans firming up; members stand to benefit

With 1990 plodding along, the countdown to the annual rent-to-own summer convention — where the theme will be “APRO '90: Countdown to the Future” — is well under way.

Member services for the convention include substantially discounted airfares through Delta Airlines, special car-rental rates and expanded sports and spouse programs, according to Debbie Hansen, APRO director of member services.

The Orlando Peabody is site of the convention, which is scheduled for Sunday, July 22, through Thursday, July 26.

The trade show portion of the convention is scheduled for Monday, July 23, through Wednesday, July 25. The

exhibits will be displayed in the Orange County Convention/Civic Center, directly across from the Peabody, and exhibit hall hours will not conflict with other convention activities, Hansen said.

APRO's official invitation to exhibit was mailed out in early December to former and prospective exhibitors. A second mailout was scheduled for mid-to late-February. Approximately 185 booth spaces are available for the 1990 trade show.

For exhibitors and non-exhibitors alike, APRO has secured affordable room rates and discounted air fares.

For more information on the convention or trade show, contact Hansen or Shelley Martinek, assistant director of



member services, at (512)794-0095. Or, write: APRO, 6300 Bridgepoint Parkway, Suite 305, Austin, Texas, 78730.

Dec., Jan. membership sweepstakes winners named

Mac Hennigan, Hennigan Enterprises of Bedford, Texas, is APRO's winner of the \$500 savings bond for the January membership sweepstakes.

During the Jan. 1-31 period Hennigan signed up the most new APRO members.

Betty Coolidge, Mrs. T's Rentals of Central Village, Conn., was the winner for December. Since she signed up the most new members during the Dec. 1-31 period, Coolidge wins a vacation for two on APRO's cruise to the Bahamas, which is coming up Monday through Friday, March 12-16.

All APRO members who sign up a new regular or associate member during the sweepstakes are automatically entered into a pot for the grand-prize drawing. "Don't forget to get your new member's application in the mail post-

marked no later than Saturday, March 31, to be eligible," said D.J. Thomas, APRO assistant director of member services.

Also, there are two more monthly contests with winners yet to be announced. The prizes at stake ...

- February — A trip for two to Las Vegas.

- March — Full and spouse registration to the APRO 1990 convention in Orlando.

High-stakes prizes — which will be awarded in the grand-prize drawing of all entries on Monday, April 16, 1990, and will be conducted by Darrell C. Gardner, certified public accountant (CPA) — include a trip to Cancun, Mexico; a trip to Orlando, Fla., and the APRO convention; and a \$1,000 savings bond.

APRO members, associate members and their employees are eligible to compete.

The time frame for the contest is December, 1989, to March 1990.

For more information, contact Thomas or Shelley Martinek at (512)794-0097. Or, write: APRO, 6300 Bridgepoint Parkway, Suite 305, Austin, Texas, 78730.

CONVENTION GOLF, *continued from page 29*

players to hotel.

Winners will be announced at the luncheon buffet. Trophies will be awarded during Wednesday's award dinner.

For more information, contact Thomas at APRO — (512)794-0095.



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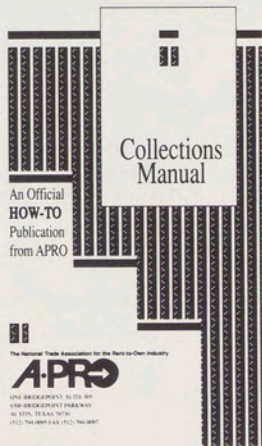
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Revised APRO Collections Manual now available

The revised 1990 APRO Collections Manual is now available to association members for \$20 a copy.

The

collections manual was revised under the guidance of Bud Holladay, vice president of employee development

APRO's Hansen picked for special course in hotel management

Debbie Hansen, APRO director of member services, was one of a few association meeting planners selected from hundreds of candidates for a special hotel management course conducted last fall in Houston.

Hansen completed the Texas Society of Association Executives/Hyatt Hotels Orientation Program last Oct. 20.

The intensive two-day course covered hotel management areas such as:

Sales and marketing; sales support; public relations; convention services; catering; banquets; food and beverage; on-site restaurants; human resources and personnel; in-room dining; kitchen operations; culinary training with executive chef; pre-meal meetings; and overseeing VIP amenities.

Hansen's specialized training, which was funded through the TSAE/Hyatt program, gives her an even broader scope of knowledge when it comes to hotel meeting and convention planning, said Ted Wilson, APRO president.

"I think I can better serve members' needs after having gone through the program," Hansen said. "You get a better feel for what a quality site can and can't do."

for Alrenco, Inc., in New Albany, Ind.

Non-members can buy manuals for \$40 each.

Kim McBride, a graphic artist, created the new cover design which will be common to APRO's updated arsenal of "how-to" publications, including topics on:

- Bankruptcy
- Skip-trace

- Administrative

- Legal

- And, the all-new 1990 APRO Calendar.

To request an order form, place an order or for more information, write: APRO, 6300 Bridgepoint Parkway, Suite 305, Austin, Texas, 78730. Or, phone (512)794-0095. FAX inquiries should be sent to (512)794-0097.

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• **Coverage for all exposures in RTO, including property, liability, jewelry, transportation, auto and crime.**

• **Competitive pricing, reflective of positive group experience. Discounts for experienced owners, loss-free credits and tight management control.**

• **Members' participation in the insurance program helps reduce costs for APRO annual convention, printed materials, and regional and local seminars.**

• **The Insurance Mart has the in-house ability to quote your individual business. A newly designed application makes gathering the needed information cost effective. Also, the new deluxe package outlines various coverages at affordable prices.**

• **Travelers service. Claims offices in all 50 states — and more than 200 cities. A 24-hour hotline allows reporting of claims at the client's convenience.**

• **Loss-control program is designed to educate the insured in reducing claims and lowering insurance costs.**

• **Toll-free customer service available at both The Insurance Mart and The Travelers.**

For a free no-obligation quote, contact Robbie Bratcher at 1-800-233-7075; in Mississippi, 601-338-5513.

Coverage may not be available in all states.

potential customers straight off the street who say curiosity brought them in."

These ideas represent only a sampling of steps toward getting your house in order. Before launching into big advertising campaigns, you should take the time to determine what your store and employees can do — and how to put your collective "best foot forward." Another truism comes to mind: "Do all the right things and you've made a sale. Keep doing them and you've made a customer. Solve his or her problems and you've made a friend. This friend is a referral."

PR

Randy Buffington is a partner of T. Buff & Son Promotions, and he can field questions at (303)841-6869.

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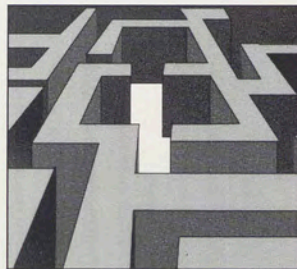
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whatsoever. None. So there's not any question that you have to have a license. Nobody can raise that question. You have a perfectly legal right to enter into a contract with your renter. You do that when you're renting a piece of equipment. So all you're doing is entering into a secondary contract that modifies the original."

...

Other changes on the rent-to-own horizon include the advent of extended warranties, supported through insurance carriers.

"The newest product now for the dealers to look at, as far as an insured



product, is an extended warranty of the items," said Ihrig. "It's really a service contract. After the customer has paid out a unit and it's in his home, he can then purchase a warranty — during the rental period or at time of payout — that will extend the warranty of that product for another year."

The benefits to just such an arrangement work both ways, Ihrig believes. Besides giving the customer protection in case of breakdown and repairs, the extended warranty is also designed "as a revenue generator for the store to add profits to the bottom line.

"(But) the real key is you keep contact with that customer. The idea is build traffic, build traffic."

PR

John Gormley is editor of Progressive Rentals magazine.

Make a habit of turning to
RTO Network News,
your monthly source
on the rent-to-own industry.

selected physicians that specialize in industrial accidents, will screen out any previous or existing injuries as well as chemical dependency problems. You should check references on all prospective employees to confirm the amount of work time cost due to illness, injuries and disabilities. This is especially important in the RTO industry, since back injuries are a major loss factor.

By having previously selected a company physician to handle all injured employees you help ensure that your injured worker will use your doctor at the time of injury.

The doctor should be willing to work with you to help keep all claims legitimate, consistent and expertly handled. Good documentation of all injuries by the employer is essential. Reserves for injuries are often held longer and at higher amounts than absolutely necessary, therefore adversely affecting your premiums and possible dividends. Keep a loss file, monitor each claim and ensure a timely closing, and make sure that all open claim reserves are modified as warranted.

Because the cost of your workers' compensation insurance coverage directly affects your level of cash flow, it's very important to implement the items above. You must engage the best carrier available and follow the directions that make sense to get results. It is sometimes difficult to understand or believe that you can make a difference in your final premium payment for workers' compensation. You can make a difference, but you must pay the price. It just may be one of the best investments you make in the long term. This is an area where your agent should be forced to earn his commission. Request regular loss runs at least every six months and ask that your agent review them with you. Check the status on any reserved losses. Let him know right away when a loss appears to be bogus.

Continued on page 36

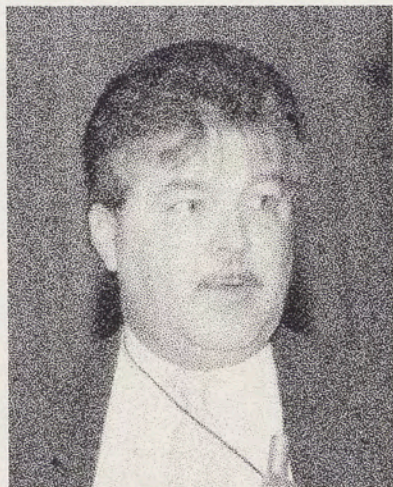
I confess. When *Progressive Rentals* asked me to contribute a regular humor piece, I did have certain misgivings. How many RTO dealers in today's marketplace want to pick up their trade magazine and read something funny? Just scanning the new VP's budget forecast might provide more comedy than most dealers can stand.

But — thinking back over my 22 years as an observer and

The many ironies of advertising in rent-to-own

participant — I realized that ours is indeed a funny industry. Don't think so. Okay, then, what other business pays people \$300 a week to cancel \$1,200 accounts? (The real irony is that we buy them \$15,000 air-conditioned vehicles to ride around in while doing it.)

Of course even that rarely proves fatal because we simultaneously buy \$150,000 ad schedules to find new accounts for us. I suppose there's a certain symmetry there that only employment or advertising agencies can really appreciate.



BY BUD HOLLADAY

And somehow the advertising can work even when it gets screwed up. True story: A little old lady in San Antonio timidly approached the sales counter of an established RTO store clutching a torn envelope and a carefully folded document.

With a bewildered look on her face, she presented the paper to the manager: "This says I have 10 days to *repent*."

The story contains two morals. One is, always proofread the ad copy. And the second is, never discount the value of mortal fear in building store traffic.

A different kind of fear is often shared by many new dealers in our industry. They constantly worry that somehow the real secrets of RTO advertising will escape them. As a service to those "rookies" who've mortgaged families, farms and futures on their ability to collect from the same customers they turned down last year as retailers, this column will list a few tried-and-true advertising maxims.

1. *Always advertise only the first payment (and make it really low).* This may be the only one the customer plans to make so take your best shot.

2. *Never rent to a person who drives up in a U-Haul.*

Of course, you should carefully check the application anyway — he may only be a former RTO dealer relocating after a buyout.

3. *Always blame lack of business on bad advertising (or,*

**BUD
HOLLADAY**

the competition). This allows the everyday worker to escape any responsibility whatsoever for store results, thus eliminating the need for hiring and training budgets, bonus programs and other unwieldy devices that only create headaches for an already overburdened office.

4. *Always tightly wrap and tie handbills to be distributed by your own employees.* Most municipalities have stiff fines for loose trash blown from dumpsters.

5. *Carefully analyze TV station trip promotions.* ROS schedules that include "Science Today," "Sunrise Semester" and "Meet Your Proctologist" can deliver an audience you might otherwise never have seen in your stores, thus broadening your employees' experience while enjoying a free vacation in Jamaica. Always go for the dual-benefits deal.

6. *If your cost-per-delivery exceeds \$50 in any period, think about going door to door and offering householders \$25 on the spot to rent your store for a week or two.* This could have a twofold impact on your P&L. Cost-per-delivery is halved and store managers save time by turning down applicants before they come to the store. Another dual-benefits deal!

7. *Never distribute copies of print ads to employees.* Distribution only ensures that more people will be aware of and actually even want your advertised specials — which leads to increased truck and delivery expense and more inventory purchases. Hold down costs whenever possible.

8. *Install only the smallest store signs.* Huge lighted signs only make your store easier to find by those roving gangs of well-organized rip-off artists you heard about

Continued on page 45

Never rent to a person who drives up in a U-Haul. Of course, you should carefully check the application anyway — he may only be a former RTO dealer relocating after a buyout.

Package

"What is a package policy?"

A package policy can consist of a combination of any coverages but generally includes coverage for your inventory in the event of fire or theft, and coverage for damages or injuries resulting from your store premises or by your property. It should be a product designed for the rent-to-own industry. Property coverages should deal with items leased, financed or owned. Various areas that could be addressed are buildings, contents, loss of income/additional expense, money, employee dishonesty, flood, earthquake, electrical panels, jewelry, computers, employees' property, valuable papers, accounts receivable and more. Liability coverage for third party claims could include on- and off-premises activities, personal

injury, and medical payments where negligence does not have to be shown.

Many packages have "fringes" built into the premiums. Since all insurance companies differ, it's important to know which ones you have, need and are willing to pay for.

"What should I look for in a package policy to be sure I have the best deal for my premium dollars?"

Be sure you select the highest property deductible your cash flow can handle, making sure it's worth the credit.

The best deductible breaks are usually at \$1,000 and again at \$5,000. This applies to third party property damage claims also. If you select a property damage deductible of \$1,000 per claim, you pay minor claims such as a wet apartment rug for an improperly in-

stalled washing machine. A property damage deductible could save you considerable premiums. Since the credits differ with each company, have your agent give you various options.

Also be sure that the items your premium is based on for general liability are correct. These are square footage of area, payroll and receipts. If these are not estimated properly your annual premium will be based on different amounts and you could have a very large audit due "at once" at the end of the policy term.

Ask what the built-in "fringes" are to be certain that the policy includes all the coverages you need. (An employee dishonesty coverage built in your last policy may not be included in the new proposal you are contemplating.) You will want to delete any extras you don't need for a premium credit, if possible. Most package policies have non-owned auto liability included. You should be sure it's included on your auto policy and deleted from your package policy so you don't pay twice.

"What is my largest liability exposure?"

The largest losses in dollar amounts are incidents involving the collection process, such as breaking and entering, trespassing, and assault and battery. Even if a judgment isn't awarded, your defense costs could be devastating. Since general liability coverage is not designed to cover criminal actions, you could be on the line for a large amount of money. The only way to attempt to cut down on this exposure is to screen the backgrounds of potential employees to ensure they have the integrity to follow set rules and collection procedures. You must have a written procedure for collections, signed by all employees, stating certain practices that aren't tolerated.

Knowing what's needed and how to prevent losses is the best way to get the most for your money on your package policy. An informed buyer is usually one with a good insurance agent that has his clients' best interests in mind at all times.

Continued on page 45

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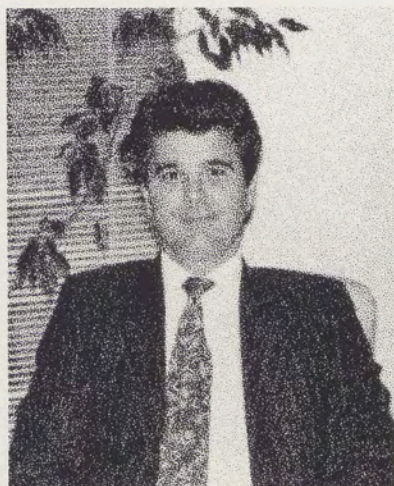
MESSAGE

We've just had a government relations committee meeting, an executive committee meeting and a meeting of the full board of APRO, so I want to share a few thoughts about the association while I continue to ponder the fate of the industry overall.

I wish that the industry and the association were synonymous, but, of course, they are not. The only groups with that kind of membership are those who license their members and allow them to do business at all — state medical and bar

We've progressed in 10 years, despite 'quitters'

associations. I have always considered belonging to your trade group as an industry obligation. You pay dues to support your industry, and that is how I used to sell it. That notion doesn't work as well these days, although I and others still believe that is how it ought to be, and so we must sell services and argue value for the dues dollar.



BY ED WINN III

Unfortunately, we cannot guarantee that a dealer is going to make more money by belonging to APRO. And for greedy rental dealers, that's really all they care about. And if we can't make those guarantees, they just aren't interested. They have no sense of community, of belonging to something larger than their own little worlds, and APRO is merely an expense to be avoided if possible. It will come as no surprise that I have little use for that kind of petty thinking and should be comforted knowing there is little likelihood those dealers will be reading this magazine or otherwise involving themselves in industry concerns.

Small-mindedness, however, is not the only reason rental dealers choose not to share our ever-struggling sense of community. We, as an association, have made some spectacular judgment errors over the years and I have been personally responsible for a few of those gaffes. I have tried to apologize when I have been made aware of my own screwups, but some people take apparent delight in bearing grudges.

By way of defense, we at APRO have been trying to do what we think is best for the industry. We have never intentionally been the dupes for Remco or Rent-A-Center or

any other company — large or small. These companies and all of the other ones that we represent — they are the industry. These days, we often agree with Rent-A-Center, for example. But then, Rent-A-Center is apparently doing a lot of things right. We don't always agree with Rent-A-Center, however, and to their credit, they stay at

ED
WINN

the table and negotiate when we do disagree. It is wearying to have dealers simply say, "I quit" the first time they see themselves at cross purposes with the association. How much more gratifying it would be if those dealers would get involved, run for the board, and decide to make a difference in what the association is doing for the industry. It has happened like that a few times over the years, but not often enough.

If we haven't done everything right, I will argue that we have done a lot of things right. The industry's image is better than it was 10 years ago. The business is safer than it was 10 years ago. The industry has a presence in Washington, D.C., and in many state capitols, as well. I do not want to offend state groups and take credit where none is due, but APRO's existence and activities have helped indirectly with all of these efforts. Now that we have state associations, we want very much to get along with them. I know that we have angered a few groups, but it is not out of arrogance or indifference.

I happen to think that this industry needs a strong sense of community at as many levels as we can sustain. I have known some anxious moments when I feared state groups were stealing APRO's thunder. That was a lack of vision on my part. We need more group effort, not less. Left alone and isolated rental dealers can turn quickly to banditry. I have seen it happen more than once. We need each other to keep industry practices as clean and as honest as they can possibly be.

We are beginning our second decade of life in rent-to-own this

Continued on page 46

How gratifying it would be if those dealers would get involved, run for the board, and decide to make a difference ... It has happened like that a few times, but not often enough.

APRO Vendor Relations Committed key link among vendors and RTO

The APRO Vendor Relations Committee serves an important function in addressing the national rent-to-own trade association's priorities, according to Ted Wilson, APRO president.

The committee sets the direction and helps with many specifics of the annual convention and trade show, Wilson said, and it provides an important link among vendors and dealers in the RTO industry.

Committee members are scheduled to convene Wednesday, March 7, in Las Vegas. Current members of the committee:

Jim Benz, national rental manager, General Electric Appliances, Louisville, Ky.

(Benz takes Don Linskey's post on the committee; Linskey was promoted to another position within General Electric, and Benz was promoted to national rental manager.)

Don Crawford, vice president and national sales manager — rent-to-own, Voyager Insurance, Waynesboro, Ga.

Les Feldser, president, Rental & Sales Software Systems, Corpus Christi, Texas.

Claudia Filloramo, president of Key Rental of Florida, Inc., and general partner of Rent-A-Rock, Panama City, Fla.

Tom Kitchens, national rental sales manager, Whirlpool Corp., Benton Harbor, Mich.



*Jim Benz,
GE Appliances*



*Don Crawford,
Voyager Insurance*



*Les Feldser,
Rental & Sales Software*



*Claudia Filloramo,
Rent-A-Rock*



"I am excited about taking on this new challenge (promotion to national rental manager). I look forward to working with APRO and hope I can make a contribution."

*— Jim Benz,
GE Appliances*



"A plan was submitted whereby appointments can be made for a specified term — for a wider selection of vendor representatives ... This program will enhance the committee with a continual rotation of members and make for a most active committee supporting all interested vendors."

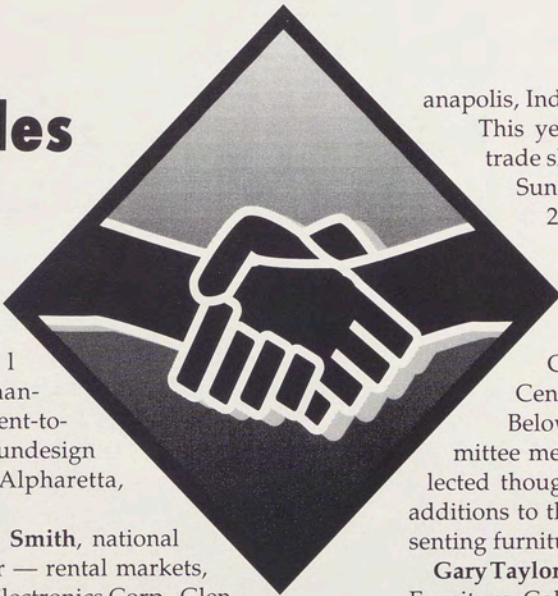
*— Norm Smith,
Zenith Electronics*

Provides
dealers

Jim Rives, national sales manager — rent-to-own, Soundesign Corp., Alpharetta, Ga.

Norm Smith, national manager — rental markets, Zenith Electronics Corp., Glenview, Ill.

Tim Fages, special markets manager — East, Thomson Consumer Electronics, Indi-



anapolis, Ind.

This year's APRO convention and trade show will be in Orlando, Fla., Sunday through Thursday, July 22-26. Convention rooms will be at the Orlando Peabody, while the trade show will be directly across the street at the modern Orange County Convention/Civic Center.

Below are photos of regular committee members, along with some selected thoughts and observations. New additions to the committee — both representing furniture — who are not pictured:

Gary Taylor, national sales manager, Hart Furniture, Collierville, Tenn.

Bud Varas, executive director, Associated Furniture Distributors, Greenville, S.C.



Tom Kitchens, Whirlpool



Jim Rives, Soundesign Corp.



Norm Smith, Zenith Electronics



Tim Fages, Thomson Consumer Electronics



"I have enjoyed being on the committee. I have been on it probably since it started. Now I'm ready to relinquish my position to another computer vendor. It's time to give someone else the same opportunity I've had."

— Les Feldser,
Rental & Sales Software

"I find it gratifying that APRO is so concerned with offering its members the very best service, direction and information that they have developed and expanded the ... committee to its present state."

— Tom Kitchens,
Whirlpool

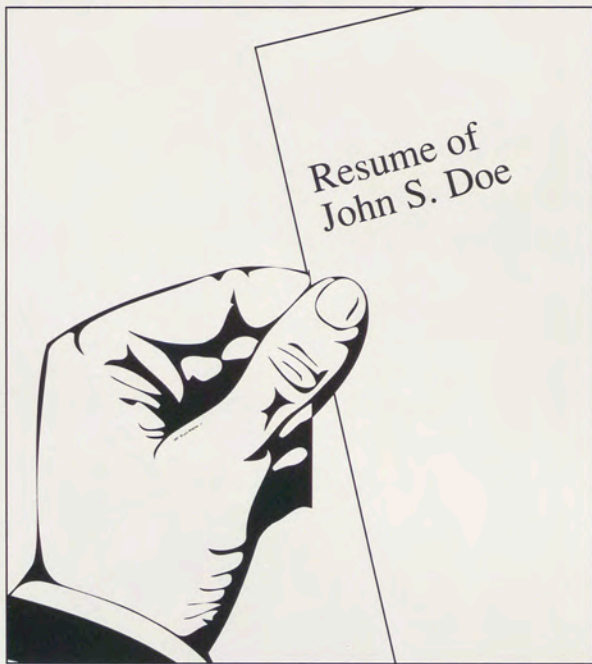
Check references to 'ensure' new employees

Asking for, and giving, job references shouldn't be taboo if it's done well

By Wayne Outlaw

Unfortunately, experience shows that employment references are not checked often or well.

References are a critical part of the employment process and are your insurance policy for future employees. If you cannot ask for job references you are severely limited in your ability to identify good people. If the candidate cannot get a reference from former



employers, it can limit his ability to obtain a good position.

Employers check references on only 25 percent of their prospective job candidates, according to a recent study by the executive search firm of Challenger, Gray and Christmas. Is it any wonder that employers discover that a new employee is having the same type of

problem that he had previously?

The rent-to-own industry, because of its growth and change, has experienced tremendous turnover. This turnover or churning of employees between organizations has resulted primarily from the resistance of employers to provide accurate information on employees' previous job performance.

By following some simple guidelines, which we teach to our clients, you can reduce the concern in giving and checking references about the employee's previous job performance. After all, past job performance is the best indication of future job performance.

Fear of litigation

Many companies don't give references because of fear of litigation. If they do, they only give the dates of employment and job title. They may feel this eliminates their risk. Unfortunately, if they have this policy and consistently give favorable references for specific individuals or specific types of positions, this too could be considered discriminatory.

A recent case of a national insurance company points out that not giving references has its pitfalls. An employee with an excellent work history was terminated in a dispute over legitimate business expenses. Her supervisor asked her to resubmit her expense report with reduced expenses to correspond to the expense budget. She refused and the supervisor fired

her for gross insubordination. The company decided not to give her any type of job reference.

As you can imagine she had difficulty finding work in the insurance industry. As a result, she sued her former company and collected for defamation and lost wages. The court found that no reference could be construed as a negative reference.

Since it is important to be able to provide and obtain references, RTO companies must find ways to give references without exposing themselves to litigation.

Giving references

To stay out of trouble, RTO companies should follow several key points.

- Tell the truth. The truth is a defense against defamation. An honest, specific evaluation of an employee's work history and an accurate appraisal of his ability can be easily defended. This puts a burden on the employer to keep accurate performance data.
- Ensure the information is given to only those with a need to know.
- Stick to factual statements about the former employee's actual job performance.
- Avoid generalities and subjective judgments.
- Limit references to the specific skills or attitudes that are needed for the job.
- Don't allow references to be colored by personal feelings.

Continued on page 46

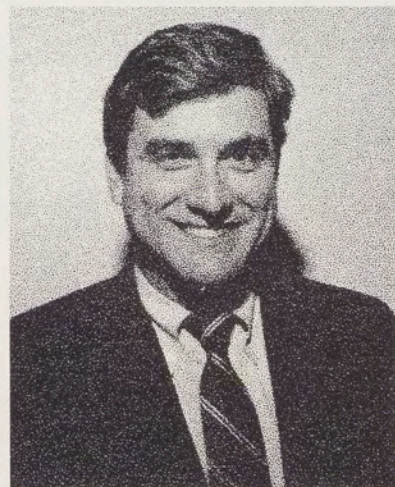
There must be a rental company out there without any debt. If the owner of that company is reading, you might as well turn the page. You'd be wasting your time. If, on the other hand, you owe money, read on. And if your debt has been described as a multiple of two digits, read on — twice.

There's an abundance of talk in the rent-to-own industry about Chapter 11. We have some dealers in trouble. We have some dealers who think they might be in trouble. And we

Chapter 11's down side (as opposed to up side)

have some dealers who are in trouble and don't even realize it. A discussion of Chapter 11 is in the cards for all those dealers.

First, let's look at the easy part. Chapter 11 is the slam-dunk solution for any business in trouble. It immediately paralyzes the lender. It acquires for the business owner swift and certain control over his business affairs without distraction from the claims of creditors. In short, it is a honeymoon ticket.



BY JAMES D. WALKER JR.

Unfortunately for some, it is also like dope. Its benefits come at a great price. It often does nothing more than make the user feel good. And, also like dope, Chapter 11 sometimes destroys its user.

The mechanics of Chapter 11 are generally understood. The debtor quits paying his debts. Creditors are told that they will be paid under a plan which will be proposed later. The business continues, financed by its cash flow. Inventory purchases, store closings, staff cut-backs and sales of idle assets are all tactics employed during this moratorium to reorganize the business.

In a few months, a new business is supposed to emerge which will be able to pay its debt through a plan and once again become a viable financial entity. The rationale: More money will become available to service this debt because of increased revenues and lower operating expenses.

Some companies can successfully reorganize under Chapter 11. Most companies fail. It's a difficult and demanding task. This column will address a few of the less-than-obvious aspects of Chapter 11; it is not intended as a comprehensive primer on the subject. Instead, the goal is to illustrate some of

the maddening complexities which confront the business under Chapter 11.

The rules regarding utility deposits seem to always come as a shock. Whenever a debtor files Chapter 11, the utility companies cannot refuse service, even if the account is delinquent. Instead, they are required to establish a new

**JIMMY
WALKER**

account. For new accounts, they are authorized to require deposit. This is particularly costly for a company with stores in many different utility markets.

Many debtors get around this requirement by keeping up-to-date with their utility bills. Consequently, the utility companies are sometimes unaware of the Chapter 11 filing — or simply choose to ignore it. But this is obviously not possible when the debtor is delinquent on his utility bills. And the deposit requirements might turn out to exceed the past-due total. This type of situation can impose a substantial cash drain on the Chapter 11 company very early in the case.

Another pitfall peculiar to Chapter 11 is the need to pay cash for all purchases, including inventory. While Chapter 11 can suspend the obligation to repay debts, it cannot impose upon any creditor the obligations to advance additional funds to finance the company. Depending on the level of cash flow and the recent nature of lender advances, the transition to cash may cause inventory levels to become irreparably depleted.

In this cash world, the loss of little conveniences can be major obstacles. For example, offices supplies such as printed checks and forms require front-end cash. Gasoline and vehicle maintenance sometimes require a large cash deposit to establish a charge account.

In short, a transition to cash requires a lot of it in the beginning. True, a lot of it becomes available when debt-service obligations are relieved. Careful advanced planning is necessary to determine whether one offsets the other.

On another front,
Continued on page 44

Chapter 11 is the slam-dunk solution for any business in trouble ... Unfortunately, for some, it is also like dope. Its benefits come at a great price.

'Starter System' to work with Philips' CD-I

OptImage Interactive Services has announced development of the Starter System, a low-cost development platform for CD-I. (CD-I is an extension of the home compact disc player that's used for displaying multimedia — combining audio, video, text and other images — creations; see December 1989-January 1990 *Progressive Rentals*, page 42).

Starter System is designed to create simple, easy to use, multimedia presentations using the CD-I player.

The system consists of a Philips CD-I player, including multimedia controller and extension system, a 40-megabyte hard-disk drive, monitor and keyboard. A sample CD-I disc containing hundreds of images and sound samples is also included, allowing the user to prototype and develop CD-I applications.

OptImage is a joint venture among Philips, Microware, Sun, Datalink and NCS, and is responsible for the development and sales of CD-I authoring systems.

"The development of the Starter System is based on our belief that the best environment to create CD-I multimedia titles is the CD-I player itself," said Bob Sorensen, president, OptImage.

Early this year, OptImage plans to introduce an enhancement system

which will convert the Starter System into a full CD-I publishing system. This enhancement, the OptImage CD-I Emulator, will permit users to build a CD-I master-ready program and have it "play" on the actual CD-I player while the program is contained in magnetic memory (emulation).

"Emulation is the key to fast, efficient CD-I authoring," Sorensen said.

Source: Philips Consumer Electronics

Whirlpool announces distribution changes

P. Daniel Miller, vice president, sales and distribution for Whirlpool Appliance Group, announced that the company has discontinued distribution of Whirlpool and Roper home appliances through two of its independent distributors.

The distributors' former market areas are now being covered by Whirlpool sales divisions, according to Miller.

Territory for the Collins Company, Inc., headquartered in Louisville, Ky., is now handled by Whirlpool's Louisville sales division. The new division is currently staffed by retail sales manager Bob Niemeier, whose former position was Whirlpool sales manager at the Collins Company.

The Louisville sales division is in the corporation's east central region, headquartered in

Chicago.

The sales territory formerly covered by RADCO, Inc., of Chattanooga, Tenn., is now the responsibility of sales managers from Whirlpool's Atlanta sales division, headquarters for the company's eastern region.

Source: Whirlpool

Ashford ColorTyme's director of marketing

Jim Ashford has been named director of marketing and advertising for ColorTyme Stores, Inc., a 61-store subsidiary of ColorTyme, Inc.



Jim Ashford

Ashford was formerly the advertising director of Action TV and Appliance Rental and McCoy's Building Supply Centers. He is a 1974 advertising graduate of the University of Texas at Austin.

ColorTyme Stores, Inc., is based out of Dallas. ColorTyme, Inc., is the Athens, Texas-based franchisor of 500 rent-to-own stores.

Source: ColorTyme Stores, Inc.

Computer backup program offers pluses

Lone Star Computer Services has released LoneTar™ version 1.2, a product that, according to developer Jeff Hyman, will

reduce the number of floppies used in a computer data backup by "50 to 80 percent."

According to Hyman, software options include:

- Unattended backup while users are still logged onto the system.
- Cataloged files of all backup and restore processes, so results can easily be monitored by store managers.

For more information, contact Hyman at 1-800-525-UNIX. Or, write to: Lone Star Computer Services, 13987 W. Annapolis Ct., Mt. Airy, Md., 21771.

Source: Lone Star Computer Services

Textbook on hiring, profile kit available

Performance Management Associates is offering a textbook on hiring in the rental industry.

The textbook, published in three-ring binder format, covers a range of pertinent topics.

The company also offers a package of 10 self-scoring tests that comprise its customer service personality profile, as well as a complete employee selection system.

For more information, phone (817)481-5962. Or, write the company at: P.O. Box 2707, Grapevine, Texas, 76051.

Source: Performance Management Associates



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Appliance Park AP4-243
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• Poor service combined with a particularly high rate increase. (Again, in a case like this, we are likely to look for a new carrier for our client.)

Group health — in terms of cost to employers and employee awareness — is a significant issue in today's business environment. Time must be devoted to investigating healthcare plans, and that responsibility must be assigned to one person in the firm — owner, controller or other staff member.

Be cost conscious? Yes. Shop around? Definitely. Use a group specialist? It's in your best interest. Buy the lowest cost product or plan offered by a marginal carrier? Do so only at your own



peril. Having the misfortune of being stranded on a lonely road late at night — with a low-cost flashlight that doesn't work — is one thing. Being faced with a loved one who is stricken with an unexpected sickness or accident — only to find out the group insurance carrier is unable to pay the claims — is another.

PR

Dave Clark is president of Bailey-Gosling, Inc., employee benefit consultants, based out of San Antonio. He can be reached at (512)822-1106.

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icy, such as fire, lightning, wind, hail and vandalism. This form of coverage is not as broad.

"Replacement cost" coverage replaces buildings or personal property without depreciation, whereas "actual cash value" coverage will depreciate buildings and personal property according to age.

We try to look at insurance as a risk management technique. The management of risk is identifying problems or possible losses — and finding ways to prevent them from happening.



Our commitment is the same today as it was 10 years ago and throughout the past decade.

PR

Robbie Bratcher is president of The Insurance Mart. Her home office is in Jackson, Miss., and she can be reached at (601)956-5093.

LEGAL,
continued from page 41

there is the U.S. trustee. At a time when all of the company's attention should be directed toward reorganization, the U.S. trustee will be demanding forms and more forms. The U.S. trustee

**JIMMY
WALKER**

is an entity of recent vintage whose duty is to supervise Chapter 11 cases. He attempts to assure himself that the debtor's operations do not result in a dissipation of the assets of the company.

He wants lots of information provided on his forms — and he wants the information according to a strict timetable. He wants proof of this and that. Insurance coverage, inventory, new bank accounts, accounts receivable and accounts payable — all are areas of

interest to him. Failure to comply with his requirements will likely result in a dismissal of the case. The U.S. trustee is a new complication for the owner to reckon with.

Last to be mentioned are two features of the bankruptcy law known as the absolute priority rule and the Section 1111 (b) election. These are complicated legal concepts. An understanding of them is necessary before filing Chapter 11 in order to know whether there will be any benefits to the owner of the company.

First, consider the absolute priority rule. It determines if a plan can be approved over the objections of creditors. (Anything is possible *with* the approval of creditors.) The absolute priority rule provides that every class of creditors must be paid in full before the next lower class can receive any benefit under the plan. In other words, unsecured creditors must be paid in full before shareholders can retain their ownership interest under the plan.

This requirement can represent an insurmountable obstacle to the approval of a plan for a debtor that does not have enough cash flow to finance full payments to all creditors. The provisions of this rule are sometimes avoided by the contribution of new capital from shareholders. Such capital may make it possible for them to take an ownership position in the company while paying less than all of the company's debts. This is a lot like buying the company with new money subject to *some* of the previous debt.

This scenario is unlikely become most debtors deplete their capital reserves before deciding to file Chapter 11. To make this plan work usually requires a new investor. This is often a hard sell since any potential new investor is likely to question the fundamental viability of the company which finds itself in Chapter 11.

The other hurdle is Section 1111 (b) election. To say this is to say the San Francisco 49ers beat the Denver Broncos in the Superbowl. Yes, they *really*

beat the Broncos. And, yes, this provision of law is *really* complicated.

Unfortunately, it relates to situations which are very common to our business. For example, a rental company owes \$1.5 million to a lender secured by property worth \$900,000. Therefore, a \$600,000 portion of the secured debt is really not secured under any valuation estimate.

A company may be able to repay \$900,000. The company may be unable to pay \$1.5 million. Can the lender be required to accept the value of its collateral rather than the full amount of the debt in the Chapter 11 plan? The answer is yes — and no. See, it is complicated.

The debtor can propose a plan that pays only the value of the collateral. After all, the lender would be no better off if the company was liquidated. If the lender does not make the election provided under Section 1111 (b), the plan can go forward. If, though, the lender makes the election, the debtor must surrender the collateral or pay the lender's claim in full.

Either event will likely mean catastrophe for our hypothetical company. The only answer is to get the cooperation of the secured creditor. But if they're still smarting from the slam-dunk move (the filing for Chapter 11 itself) in the beginning of the case, an agreement may be impossible.

If this column leaves the impression that there are big problems in Chapter 11, then I will have accomplished what I intended. It is nearly impossible to reorganize a company without cooperation from its creditors. For that reason, it's always prudent to try and maintain good relations with creditors throughout the process. What begins very easily for the debtor is very difficult to complete.

PR

James D. Walker Jr., known to his friends as "Jimmy," is a partner in the law firm of Surrett, Walker, Creson & Colley. Questions should be directed to him at: 800 Trust Company Bank Bldg., Augusta, Ga., 30901.

from your competitor. A smaller, unlighted sign encourages those who are most deserving of your products and services to work really hard to find you — thus revealing their true character.

9. Make liberal use of phrases such as "bankrupt and welfare welcome," "AFDC accepted," etc. This guarantees that your \$4 per hour route managers will indeed work a full 60-hour week



instead of slackening off

during those slow periods when everybody pays on time.

10. Use your store employees in TV commercials. This enables customers to recognize the person standing motionless behind the counter as a real employee instead of confusing him with the cardboard cutout of Roger Rabbit. Nothing is more irritating to customers than trying to determine whether the salesman is actually breathing. (Purse-size mirrors bearing your company logo might be good handouts; for you new people, this is what "mirror test" really means.)

Of course, even the best advertising is only as good as your people. And the best sales producer is usually that untrained new employee who manages to generate enthusiasm — until the day he learns from the veterans that his job is impossible. Every training program needs an incubation period to keep new hires away from experienced workers.

These advertising tips are so simple that any company's advertising manager can effectively implement them. Of course, if yours doesn't have an advertising manager, then your first job is to recruit one. Otherwise, there'll be nobody to blame but the boss when business goes south. Isn't accountability the first lesson in management?

PR

Bud Holladay is a legendary rent-to-own humorist who in his spare time handles management development and employee training for Alreco, Inc.

Umbrella

"What is an umbrella policy?"

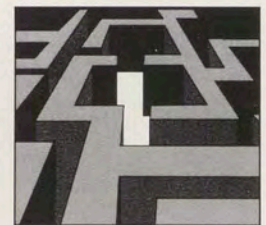
An umbrella policy extends coverage above your existing liability limits. These existing limits are known as underlying. A true umbrella also picks up some coverages for which you may not have basic liability insurance. To be sure your umbrella extends coverage overall all your existing policies, you need to be certain all the underlying policies, such as auto liability, general liability and employer's liability, are scheduled on the umbrella policy. Although auto insurance is by far the largest liability exposure for a store owner, we review insurance files very often where the umbrella policy extends over the package policy only.

Check with your agent to be sure all your liability exposures are covered under your umbrella. If you don't have an umbrella policy, request a quotation and recommendation regarding the viability of purchasing one.

...

Buying insurance is a lot like buying television sets ... what you buy today — because of

pricing, terms, delivery policies and warranties — may not be what you buy tomorrow. We all know that market conditions change and this is especially true of the insurance industry. Select an independent agent or broker that keeps you informed of changing conditions and, more importantly, spends the time needed to manage your insurance account. If the agent does his or her job, you may change insurance companies — but you won't change agents.



PR

Barry Gambini, former owner of RTO, Inc., and past president of APRO (1982-84), is an insurance agent with Nielsen and Associates Insurance Services in California. He can be reached at 1-800-842-8818.

- Apply all policies concerning the providing of references consistently.

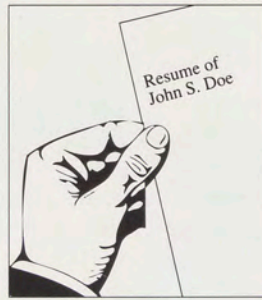
Employers who act in good faith in most states have a "qualified privilege" to communicate an accurate appraisal of performance even if it otherwise might be considered defamatory.

Getting references

Getting references requires just as much care as giving references. Here are several tips for getting the right people to talk about past job performance of your favored candidate.

- Obtain permission from candidates to check references.

It is best if permission is written or included in the job application.



- Ask for a number of names so that you can avoid the handpicked references, such as close friends or former coworkers.

- Ask for references of at least three former bosses, three former coworkers and, if supervision is involved, three former subordinates.

- Seek out someone who knows the actual job performance of a prospective employee in all previous positions.

- If the job involves customer contact, ask for a list of customers along with permission to contact them.

- To check the references at a current employer, ask for names of those who are no longer employed with the company.

In today's RTO industry there, most likely, will be individuals who have left the company who know the candidate's performance. If the prospective employee cannot provide the names of those who know their work history, it should be a cause for concern. Generally, top performing individuals not only know who can describe their work performance, but will be willing to assist you in locating them.

In today's competitive environment, identifying and attracting the top people is critical to the health and growth of RTO companies. It is critical that accurate references are given and obtained to make sound hiring decisions. Those you hire today are your insurance for the future.

PR

Wayne Outlaw is president of Marcon, a business consulting and training firm based out of Mt. Pleasant, S.C. He is a regular contributor to Progressive Rentals.

year. I am acutely aware of a sense of history to this entire effort. I do not see the industry's struggle for recognition and legitimacy or the association's struggle for autonomy and cohesiveness getting any easier. We, who have taken the high road and elected to be responsible for our less responsible col-

leagues, will have to continue



bearing more than our fair share of the load. It is a damn shame that it is like that. I keep wishing for it to get better. It hasn't and it may not. I keep wishing just the same.

PR

Ed Winn is APRO's legal counsel and veteran writer on rent-to-own issues.

LOSS-RISK ISSUES, continued from page 16

money. A few dealers, particularly in states permitting wage garnishment, did and still do regularly pursue customers who have lost TVs, all the more so when the circumstances of the loss were at all suspicious and tended to point to the customer as somehow being involved.

Because most dealers recognize the futility of relentlessly pursuing customers who have lost merchandise, one might suppose that insurance or some variation on the insurance theme would have been introduced early on. It was probable the dealers' exaggerated sense of concern over losses that contributed to keeping damage waiver fees and any kind of insurance out of the industry for so long.

These kinds of fees have been a staple of the short-term car rental industry, as well as rental yards and many furniture rental companies for decades. TV and appliance dealers shunned such fees initially, fearing that any reprieve from complete liability for lost property would catapult losses to unacceptable levels. Today, with that myth exploded, damage waiver fees or leased property insurance have penetrated 90 percent of the market.

Has this happened to you?

WHILE YOU WERE OUT

FOR Co. President A.M. P.M.

DATE _____ TIME _____

M Ops. Manager

OF "A" Rental Co. EXT. _____

BUS PHONE (____) _____

HOME PHONE (____) _____

TELEPHONED	PLEASE CALL
RETURNED YOUR CALL	WILL CALL AGAIN
PLEASE SEE	URGENT
CAME TO SEE YOU	

MESSAGE WE lost 2 MANAGER & 3 EMPLOYEES.

WE have to do something!

Help!

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Wayne Outlaw's seminars help you hire better people, reduce turnover, and increase store performance.

Make 1990 successful. Call Wayne today.

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Damage waiver fees operate to shift the risk of loss yet again, this time back onto the rental company for certain enumerated kinds of losses in exchange for a fee. The clause gets its name from the fact that the rental company, for a fee, will waive claims it would have against the customer for loss of or damage to the property.

A huge issue is whether a damage waiver fee is really insurance. This is a matter of state law since each state has its own definition of insurance. If a damage waiver fee is insurance, then the rental company would have to qualify as an insurance company, its employees would have to be licensed agents and the rates charged would be regulated by the state insurance commissioner. Unfortunately, there is no easy answer to the question one way or the other. Insurance is often broadly defined. For example, in the Hawaii statutes insurance is defined as "a contract whereby one undertakes to indemnify another or pay a specified amount upon determinable contingencies."

Courts often quote the following factors as evidence of an insurance contract: "an insurable interest, a risk of loss, assumption of risk by an insurer, a general scheme to distribute loss among larger groups of persons bearing similar risks, and payment of a premium for the assumption of risk." Read broadly, every damage waiver fee and many general contract terms could be characterized as insurance. Car-rental companies have long maintained that their optional collision damage waiver (CDW) clauses were not insurance contracts and they have gone to court when necessary to prove the point.

In California, the courts have basically agreed that CDW clauses are not insurance contracts. Dealers are cautioned, however, that not all courts have taken the same view. Moreover, in addition to court cases, there are opinions — both formal and informal — from various insurance commissioners and state attorneys general, holding that damage waiver fees are covered by state insurance laws.

The heyday for car-rental companies' unregulated use of CDWs may be coming to an end. State legislatures are reacting to reports of widespread abuse in the car-rental industry.

This heightened attention focused on car-rental companies has already begun to wash over onto the furniture and appliance rental industries. In public hearings in North Carolina two years ago, a representative from the insurance commission testified

that TV and appliance damage waiver agreements are unregulated in the state. Iowa's attorney general has recently written to dealers in that state notifying them of his office's opinion that damage waiver fees are unlawful under that state's rental purchase statute. It is reported that the Maryland attorney general is of the same opinion.

In Oklahoma, for the moment, apparently neither damage waiver fees nor leased property insurance is permitted under state law. When the Oklahoma legislature amended the state rental purchase statute to regulate the amounts of various "other charges," it added language preventing dealers from charging "any other fees or charges whatsoever," other than those enumerated. Neither damage waiver fees nor leased property insurance were listed and the attorney general and the Consumer's Credit Code commissioner have both stated that, in their view, neither charge is permissible.

In the early 1980s, in response to concern over the legality of damage waiver fees and in an effort to take advantage of a market opportunity, several insurance companies began marketing leased property insurance. These programs offered group inland marine casualty insurance through insurance companies. The policies name the rental company as the insured and, indeed, the property being insured is owned by the rental company. Rental customers electing the program received a memorandum of insurance explaining that they would not be held responsible for certain kinds of losses.

The legal issue surrounding this kind of insurance is whether store personnel need to be licensed insurance agents to offer the product. Again, opinions vary depending on the state and who is giving the opinion. There is not, in most instances, a clearcut answer. Dealers, for the most part, are relying on representations from the insurance companies who say no licensing is necessary.

The issue is more important in some states than others. A few states have relatively simple licensing regulations, and store personnel can easily qualify as insurance agents. Elsewhere, there are rigorous educational and testing requirements which can add substantially to the costs of doing business — all the more so given the high employee turnover rates in many companies. A few states apparently require that one employee per state be a licensed agent. Others may require an agent in every store.

A recent variation on the concept of leased property insurance is vendor's single-interest insurance, which is similar to the product that insurance companies have sold to banks and other financial institutions on secured collateral for years. The product is new for the rental industry and the legal issues surrounding it have not been crystallized.

Rental dealers have a vested interest in keeping losses from skips, stolens and damaged merchandise to a minimum. In these days of dwindling profits, losses have become increasingly important. One thing that has not changed over the years is the likelihood of recovering the fair market value of a lost unit from the customer. Dealers may be turning to the courts more to get judgments against customers, but there are no reports that rental customers are any less "judgment proof" than they ever were.

In an effort to enhance revenues, dealers have used several alternatives, mainly damage waiver fees or leased property insurance. The increased revenues from either of these alternatives has more than compensated dealers for any real or threatened increase in losses that these ways of doing business may allow. Neither, however, is without certain legal risks.

Rental dealers ought to have a legal opinion concerning the legality of damage waiver fees in their state and, further, need to track closely the fortunes of car-rental companies' CDWs, since the fates of these two items are necessarily intertwined. Dealers offering leased property insurance need protection from the insurance companies in the way of indemnities or other written assurances that the program they are using complies fully with all appropriate insurance laws.

Notwithstanding the legal issues surrounding risk-of-loss allocations and the various market mechanisms for dealing with the issues, dealers — with a few notable and hopefully short-lived exceptions (most notably Oklahoma) — have found creative and largely satisfactory ways to deal with one of the risks in what remains a high-risk business.

PR

Ed Winn is APRO's legal counsel and a veteran writer on rent-to-own issues. A more comprehensive version of this article is scheduled to appear in the March issue of RTO Network News, the monthly newspaper of the rent-to-own industry, also published by APRO.

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Traffic in your store will be heavier than ever once you have Picture-In-Picture (PIP) TV's.

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Because, as they watch one program on the

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But ask them to use the door.

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*When used with a VCR

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