

December 1990/January 1991

The magazine of the rent-to-own industry

Progressive Rentals

**Unraveling the
mystery
of rent-to-own
financing**

**Exclusive interview
with Tom Devlin**



Product focus: Video



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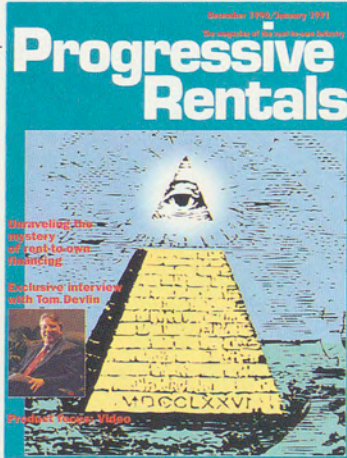
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ON THE COVER: Financing has been the buzzword throughout the rent-to-own industry in recent months. Sorting the facts from fiction has been time-consuming, but APRO has tackled that responsibility. In this issue, our regular columnists (in various ways) address the subject. Also, beginning on page 14, we report on November's RTO Financial Summit Conference, provide a historical look at financing RTO businesses — and explore the basic issues of lender liability.

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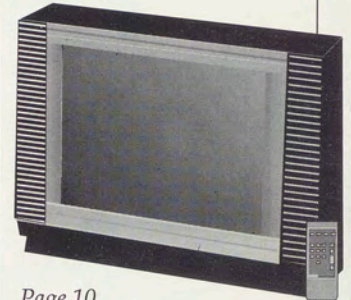
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FEATURES

10 Video gets 'user-friendly'

Americans love all the latest gizmos and gadgetry — as long as they're easy to use. RTO customers in the market for TVs and VCRs are looking for user-friendly convenience.



Page 10

14 Rent-to-own financing

Financing rental companies has long been an issue in the industry. It's the rules of the game that have changed. Also, a rather new phenomenon, lender liability, becomes a factor.

18 'Midas' of RTO, Tom Devlin

Tom Devlin seemed to have the golden touch in building his one-store operation into modern-day RTO giant Rent-A-Center. And he did it all in less than 15 years.



Page 16

33 RTO jewelry: Quality control

The popularity of rent-to-own jewelry is growing. As it does, dealers need to be more aware of the vast ranges in quality that are inherent to gold and diamonds. Here's how.

35 TRIB has important role

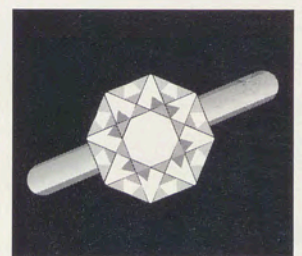
TRIB Group — The Rental Industry Buying Group — helps establish a level playing field for mid-size RTO dealers by giving them the kind of purchasing leverage big chains enjoy.



Page 32

DEPARTMENTS

President's Views	6
Director's Desk	9
Who's who in video	12
Message	27
Product comparison: RTO delivery trucks	30
Member services	32
Bud Holladay	41



Page 33

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Lenders now requiring that RTO businesses be run like any other



Those of us who attended APRO's RTO Financial Summit Conference in Atlanta in mid-November got an earful of the gripes, concerns and speculations of a number of rent-to-own dealers. Some of the comments were regurgitations of rumors that have been circulating recently, and some were based on factual occurrences.

According to a survey of participants at the meeting, most who attended represented RTO dealers who were not in trouble with their lender but were leveraged to one degree or another with some lending institution.

Conference moderator Wayne Chambers reported to the group that, according to a survey he had made of the "big four" traditional RTO lenders, they all basically indicated the following criteria to be important in considering any line of credit:

- Profitable operations;
- A maximum of five times average monthly revenue-debt ratio; and
- In-house management by ownership.

In case anyone missed the point, they are wanting rent-to-own dealers to run profitable, well-managed businesses that are not heavily debt ridden. These criteria are not new to any other industry. So why are RTO dealers so incensed at their imposition in ours? I think that as an industry we have always had too much credit available to us and too little structure to the credit lines.

In the past, many dealers were able to borrow almost unlimited funds, and spend them for virtually anything they wished. The smart ones curtailed their spending for large office buildings, luxury cars, fast boats and other ego salve. Instead, they invested the funds to develop their businesses. The not-so-smart ones used the funds for other purposes and saddled their businesses with debt service that only a miracle could remove. Small wonder that lenders are reassessing their position with regard to the rent-to-own industry.

The time has come for dealers to realize that rent-to-own is a for-real business and that the days of unlimited debt for zero profitability are dead and buried. Traditional RTO lenders will, for the most part, continue to finance our industry. But the funds will go to the solid, profitable companies with a responsible spending history and good credit performance.

Those dealers who read this "handwriting on the wall" and heed its warning will survive and prosper during the 1990s. Those who don't may magically disappear.

Ted Wilson
APRO president

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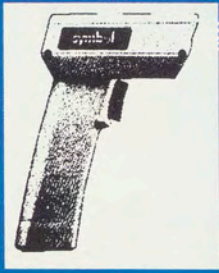
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PR

Even though you are computerized



it doesn't
mean you are
organized

When you first decided to computerize your Rent to Own stores, you wanted the lowest price possible on software and hardware. The Software Vendor you purchased it from may be out of business now. The hardware and Data Communications may not be up to today's standards. The software updates that are needed to stay up with your competition and the ever changing Rent to Own Business are non-existent. Your system security may not provide you the controls you must have to survive.

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ANNUAL CONVENTION — The 1991 convention is scheduled for Aug. 11-15 in Las Vegas, Nev.

TRAINING SEMINARS — Seminars conducted by professional consultants and experienced rental dealers cover selected topics designed to aid professional management of rental operations.

PUBLICATIONS

• **Progressive Rentals** — the feature-oriented "magazine of the rent-to-own industry" is issued every other month.

• **RTO Network News** — The "monthly newspaper of the rent-to-own industry" focuses on current national and state legislative/regulatory 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 Special Projects Fund addresses key needs for the rent-to-own industry as it enters the 1990s.

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 — Wage-hour and EEOC 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

Entrepreneurs have never wilted in the face of fear; let's not start



During the darkest days of the Great Depression, when businesses were failing at record levels and hard working Americans were losing their life savings overnight, many people thought it was the beginning of the end for capitalism in the United States. Rumors of bank closings caused panic that resulted in bank failures. Fear prompted many to believe in all sorts of domestic conspiracies.

A crippled man stepped forward to lead this nation. He was from the wealthy class, but was accused of betraying his heritage. He took action, but it is doubtful that his programs had much to do with ending the depression. He was, however, successful in reassuring the American people that things would get better. His most famous line — "The only thing we have to fear, is, fear itself." — endeared peoples' trust. After a time, they regained confidence in their government, the American economy and themselves.

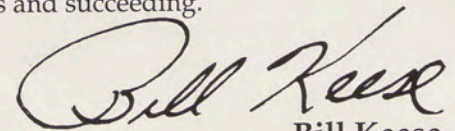
I'm not suggesting a direct comparison between the state of the rent-to-own industry today with the Great Depression. I do believe there is an important lesson to reflect on in these difficult and complex times for RTO. Fear is a debilitating emotion that, not kept in proper perspective, will destroy the organism, whether it's an individual, a company, an industry, or a way of life.

This industry should not fall victim to fear. RTO has faced many seemingly insurmountable obstacles and overcome them by hard work, persistence and an optimism characteristic of entrepreneurs. Leaders have always stepped forward for RTO. Men and women, owners and developers of chains as well as single-store operators, some still in business and some not, have carried a vision of what this industry could be. They have not let fear overcome them.

APRO's proper role in this industry is to provide a forum for RTO dealers to better understand the dynamics of this industry. We all know there is a tightening of credit in today's marketplace. There are dealers losing their stores. It is natural for fear and distrust to surface.

APRO will never take sides in industry disputes. We must study the industry and accurately report the facts. APRO doesn't have the answers to the industry's problems, but it is the best mechanism available to assemble knowledgeable people to develop answers to industry problems.

APRO will never perpetuate rumors and fears in the industry. Our role is to educate and inform those in the industry on facts and events; to keep its participants focused on the task of doing business and succeeding.


Bill Keese
APRO executive director

Customers want latest TV-VCR features, as long as they're 'easy'

User-friendly options are consistently the most popular in video lines

Americans love to possess all the latest gizmos and gadgetry — but they tend to be lazy when it comes to learning how to use them. Enter the “user-friendly” television and video-cassette recorder. With today’s ask-me-anything remote controls of today, the pushbutton society takes a giant leap forward. These remotes do everything but pop the popcorn for you — and you never have to leave your chair. Here are some of the features available to you and your customers.

On-screen menus/displays and remotes

Most manufacturers offer an on-screen menu in one form or another. The perfect device for making the TV/VCR user friendly, the on-screen display instructs viewers in VCR programming in simple, easy-to-understand steps. It’s a built-in user manual — and the ticket to helping customers overcome the intimidation of a dozen or more buttons they don’t begin to understand. Some displays, like the Hitachi Intelascan, can instruct the viewer in three languages, a valuable sales tool in areas with a significant Spanish- or French-speaking population.

Built-in manuals relieve store personnel of some of the responsibility for explaining product features — and build confidence in consumers that they can learn to fully utilize the features that attracted them to a particular product in the first place. The rent-to-

Text by
Barbara C. Stooksberry
Graphic by
Joel B. Mathews

own customer perceives the added value, says Bill Pocock, manager of merchandising/RCA brands, Thomson Consumer Electronics, and is willing to pay for added features that he or she thinks will be used.

Zenith takes the bow for inventing the remote control in 1956, according to Zenith spokesman John Taylor, and the remote “is a prerequisite in rent-to-own.” Setting up displays and demonstrating the use of these products, suggests Taylor, are effective in promoting rentals of full-featured televisions and VCRs.

In addition to learning how to use the machine, with remote in hand the viewer can program the VCR for future recording. Pocock says the “time shift recording” feature allows consumers to essentially create their own network — one that allows them to watch what they want when they want.

Panasonic offers a built-in reader with the ability to read bar codes designating every possible combination of date, day, and station for use of the VCR. The “channel captioning” feature offered by Toshiba displays station call letters as well as channel numbers — a boon for those of us who have trouble keeping 88 cable channels straight at one time.

Please DO adjust your set

Are the people green and the picture fuzzy? Stay where you are; there’s no need to leave your chair. All adjustments can be made with your remote — and that’s how your customers want it. Furthermore, today’s remotes are perfect for viewers who want to “graze” through the television offerings. So is a feature known as *Picture in Picture*. Virtually every major manufacturer is offering the picture-in-picture feature, which lets viewers scan other channels through a small window on the screen without disturbing the main screen. A stereo console with this feature runs only about \$2 more than a stereo console without picture-in-picture runs, which makes the feature very attractive to the RTO customer, says Tom Aiken of Michie Distributing, Carrollton, Texas.

This feature has another benefit to the RTO dealer, points out Ken Gay of Philips Consumer Electronics: This and other special effects features, such as freeze frame and slow motion, require a VCR, which can lead to rental of a second unit to the customer who either does not have a VCR or wants to upgrade.

The “smart window” picture-in-picture, says Gay, has been a “well-received feature.” Zenith offers not only a single picture-in-picture, but also a “triple flashback” picture-in-picture that displays three small pictures (not all moving simultaneously) on the main screen all at one time. The football fanatic’s dream, this feature lets the

armchair quarterback keep up with four games at one time.

VCRs

Although there is some consensus that the market is saturated with two-head video-cassette recorders, there is increasing demand for four-head models that can access special TV features, such as picture-in-picture and freeze-frame, and high-fidelity VCR models that offer better sound.

Hitachi, according to national sales manager Gary Wooten, offers a feature that is of particular benefit to rent-to-own: a built-in head cleaner that nonabrasively cleans the heads for the life of the ma-

chine. The movies people rent from the video stores can dirty up heads so that they need a major cleaning every 12 to 18 months, at a cost of \$50 to \$75, according to Wooten. The self-cleaning feature results in better picture quality and less down time for the unit.

The high-fidelity VCR enhances the movie-viewing experience and fills the room with sound. Without it, you cannot fully appreciate those movies

A question of size

Industry-wide there appears to be no consensus on what size television screen is most in demand. Gary Wooten says Hitachi sells some 13-inch, many 20-inch, and some 27-inch for rent-to-own. Hitachi's 27-inch model has an added feature of interest to the rent-to-own dealer: a built-in autodemonstration of its features. It's a "silent salesman," says Wooten, that allows the customer to survey the total capability of the set with little explanation from the salesperson.

Tom Aiken of Michie Distributing sees a trend toward the 25-inch table models and away from the smaller portables, the 19-inch and 20-inch models. Toshiba's Phil Petescia, national marketing manager for color TV, says his company experienced the greatest growth during 1990 in large screen, direct-view televisions, especially the 30-inch screen, and in 20-inch stereo sets.

Ken Gay of Philips Consumer Electronics has witnessed a strong movement toward 25-inch and 27-inch table models. The consumer likes this size because of its versatility. "They can be moved (easily) around the room," says Gay, whereas larger models and consoles do not have this flexibility.

John Taylor of Zenith says the company has had considerable success with

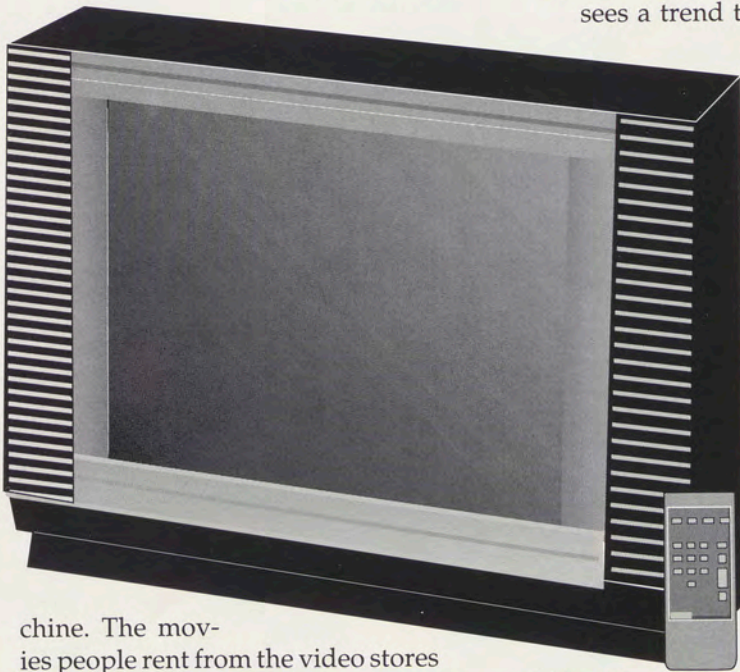
20-, 25-, 27- and 31-inch models, especially when rented with special stands that give a vertical console look that can be promoted as storage or as a place for a VCR.

RTO dealers carrying Panasonic products are experiencing their greatest rate of growth in larger screen TVs — 31-inch and larger, according to Ken Emmer, Panasonic's manager of special markets. Dealers are happy about this development because the large-screen TV is a bigger-ticket item that brings in a larger profit. The big-screen television allows customer satisfaction at a higher level. For sports events, in particular, the large screen makes the viewing more like being there, and advances in technology have produced a much better quality picture than was found on earlier models.

Bill Pocock of Thomson points to an emerging trend among consumers toward creating a better home environment for entertainment rather than going out to be entertained. To create this environment, Pocock says, you need the capability for a "big picture and big sound." For some people, this means a 27-inch or larger stereo, direct-view television; for others, a projection TV. However, his company still finds a demand for console models with functional storage space that can be used for a VCR, laser disc and other equipment, some of which the customer may already own and some of which he or she may wish to rent from you.

RCA and other manufacturers are paying special attention to the styling of their cabinets so the customer can "build on what (they) have in a coordinated way" and make a "nice, clean styling statement," says Pocock. Store managers can capitalize on this trend through in-store displays and promoting the idea of pulling together components into one cabinet to build a home theater one unit at a time, adding com-

Continued on next page



VIDEO,
continued from previous page

ponents and upgrading as a person can afford to.

To project or not to project...

Projection televisions have been a part of the trend toward creating the home theater, although they haven't caught on in the rent-to-own market to the extent that they have in retail. Prices have come down in the past few years, but not nearly enough, says John Blair, executive director of TRIB Group, a nationwide buying organization for small- and mid-size RTO dealers. He's still finding the greatest demand for the larger tabletops, with a smaller segment of the market interested in projection sets.

Toshiba's Phil Petescia, national marketing manager for color television, expects to see more growth in larger (31-inch or bigger) direct-view screens than in projection televisions during 1991, but Hitachi's Gary Wooten doesn't agree. His company is seeing projection TV "definitely growing" in RTO.

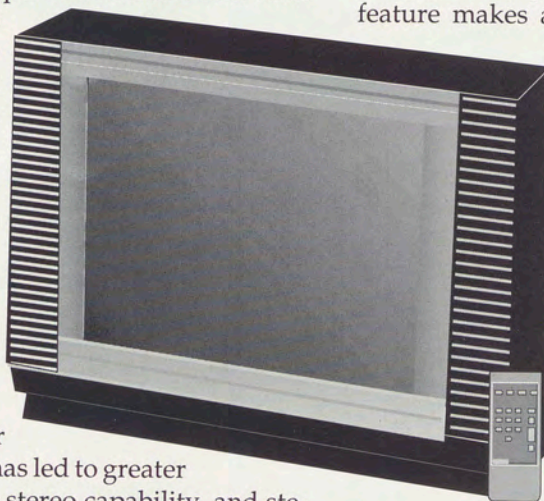
Sounds as well as sights

Stereo sound is a necessity if home viewing is to approach the true theater experience. To this end, every manufacturer has put considerable effort into designing a sound system that maximizes listening pleasure. As stereo-television broadcasting has spread across the country, greater awareness has led to greater demand for stereo capability, and stereo sound is a feature that is easily demonstrated to the RTO customer in the store.

Quasar boasts of its Dyna Dome Sound systems, whose front-firing

speakers and sound enhancement chambers "fill the viewing area with clean, crisp sound and superior stereo separation."

Zenith's SEq (spatial equalization) feature makes a "dramatic improvement" in stereo performance — the sound fills the rooms, according to Zenith's Taylor. Other manufacturers have their own answers to the challenge of recreating the theater sound in the home.



What does the consumer really want?

Realtors will tell you location is the name of the game, and the same seems to hold for the rent-to-own industry. What the customer is renting is what he or she can afford,

Continued on page 31

Who's who in video

* = Associate member + = Advertiser ¥ = Convention exhibitor

Video products continue to be the mainstay of the rent-to-own business. Good suppliers — those who can deliver the A/V products today's customers want — are essential for RTO dealers. Here's a list of current suppliers, who either support APRO as an associate member, convention exhibitor or publications advertiser.

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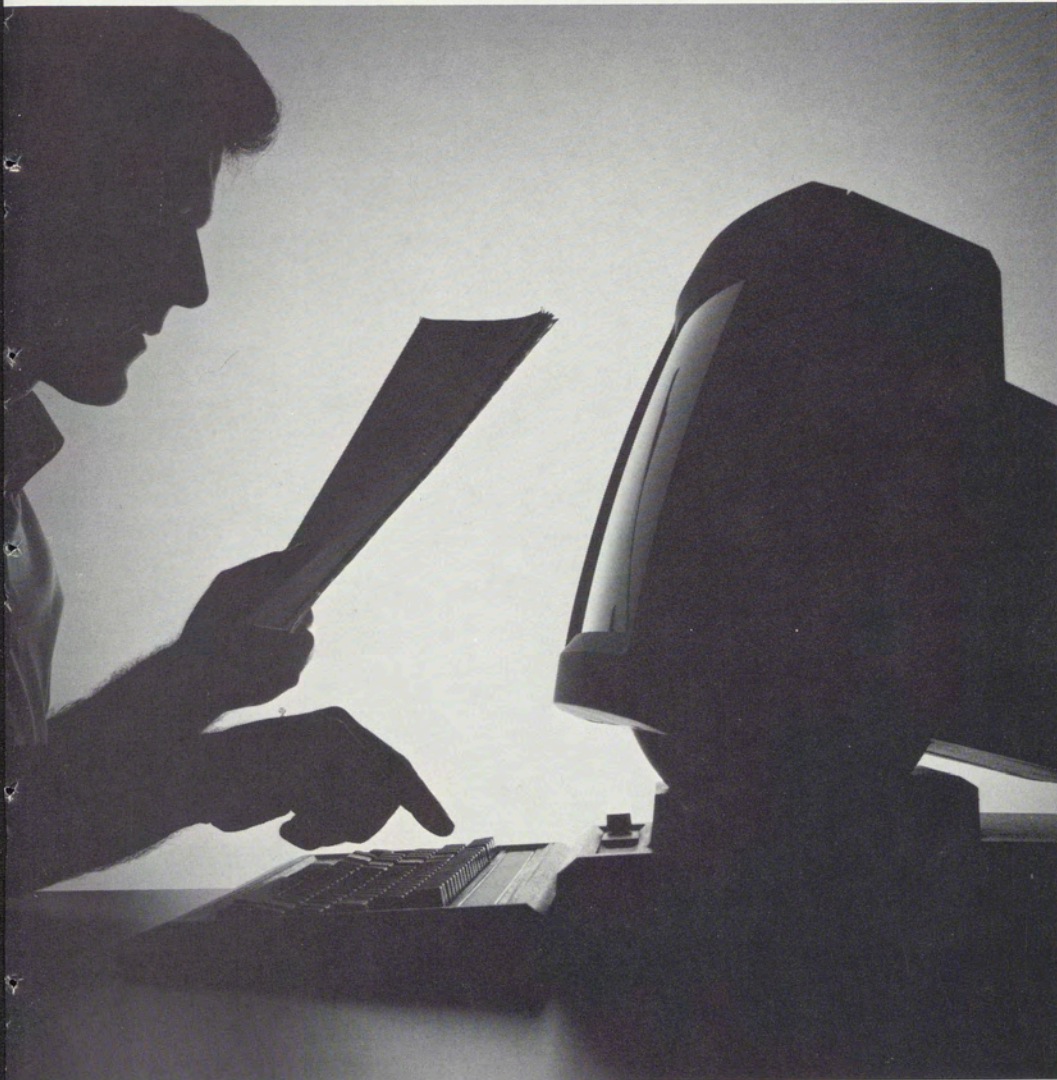
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Funding isn't a new issue for RTO, but the game rules are changing

Company owners must reinstall discipline, since lenders now demand it

By Ed Winn III

One can go back in the history of the rental business all the way to the first Talley stores in the Midwest and discover that financing has always been an issue for the industry. It was related last November with telling clarity at APRO's RTO Financial Summit Conference in Atlanta by a former finance company employee turned rental dealer:

"Lenders see RTO as a risky business. They would not loan money directly to the customer (because of no credit or a poor credit history). Now here is a dealer asking for enough money to buy 500 TV sets to give to those very same customers who could not have gotten the money for the TV in the first place."

The rent-to-own business, run properly, is arguably not as risky as it may be perceived at first glance. Nonetheless, dealers should not be surprised that there have never been large numbers of lenders eager to do

business with them. But there have always been a few; more through the good times than perhaps now through more meager times, but always at least a few. Interestingly, of the 32 companies

First Finance Corp. and McDonnell Douglas Finance Corp. (No dealers at the meeting reported loans with General Electric Capital Corp., although GECC does have an RTO loan portfolio.

In conversations with GECC personnel, APRO representatives learned that while GECC, out of its Dallas office, is actively managing its current loans, it is not actively seeking new loans at this time.) Twenty-two percent of the RTO companies had bank financing. Three percent were either self-financed or had private investment money.

Any dealer who has ever done cash-flow projections knows that RTO stores eat up a lot of cash. This is because a dealer needs to buy and have available for rent a \$400 to \$500 television and yet will only get back \$60 during the first month in rental

payments. It will ordinarily take six to nine months of steady and timely rental payments to recover the costs of the

Continued on page 26

Dealers review new financial criteria at APRO's RTO Financial Summit Conference

Responding to a growing concern among industry members, APRO leaders organized rent-to-own's first financial summit conference.

The conference, which was conducted last Nov. 14 in Atlanta, attracted owners, chief financial officers and other advisers of rent-to-own companies.

"We had an excellent cross section of RTO dealers in attendance," said APRO Executive Director Bill Keese.

Wayne Chambers, conference moderator, shared information he gathered through telephone discussions with representatives of the main RTO lending institutions.

Chambers, an APRO vice president and RTO dealer whose background is accounting and finance, outlined 12 major criteria lenders will use to evaluate RTO clients during the 1990s.

In general, lenders' guidelines will include:

1. Debt remaining between a maximum five to six times monthly revenues;

2. Profitable companies;
3. Well-kept records, preferably computerized;
4. Low delinquencies;
5. Total expenses running between 55 percent and 60 percent of revenues as a maximum, not including depreciation;
6. Direct owner involvement in the business;
7. Low to moderate idle inventories;
8. A revenue stream at between 55 percent and 60 percent of the loan limit;
9. Personal guarantees;
10. A shift from cash flow to collateralized-value loans;
11. Scheduled liquidations typically will be 1/18 for brown and white goods and 1/12 for furniture; and
12. Some are adding an average-debt-per-unit limit.

Chambers also led a discussion on alternate financial sources available to RTO dealers, and Keese announced that APRO was developing a special lenders' package that will be available

Continued on page 26

responding to a survey at the financial summit, 75 percent had loans from the three primary lenders to RTO: Transamerica Finance Corp., Chrysler

Lawsuits against lenders more common as 'moral' issue's a factor

Lender-liability law evolving through case histories, jurors' new attitudes

By Ed Winn III

It's no secret that several rent-to-own dealers are involved in litigation with their lenders.

Neither this author nor the association is in a position to comment on the specifics of those lawsuits. Most are in the early stages of discovery and may take years before they are finally resolved. This article does intend to set forth some of the legal theories and other factors involved in lender liability cases generally.

In doing so, it is neither the author's nor the association's interest to foment litigation inside the industry. Rent-to-own dealers have sufficient common and mortal enemies so that our resources are best spent against such foes rather than on fighting among ourselves. Because these suits exist, however, association leaders want readers to have a basic understanding of what this area of the law involves.

The law of lender liability has been developed out of lawsuits brought over the past 10 years against banks, savings and loans, and other lenders. It may not be completely accurate to lump all lenders together. But the cases have focused on the debtor-creditor relationship more than the specific kind of lender involved. Judges and juries have not split hairs among the different kinds of banks, savings banks, or savings and loans. They are all lenders.

There have been no rental-industry lender liability decisions, yet, and when they come, they will be based on laws established by looking at bank and sav-

THE NOTION OF LENDER LIABILITY IS A FAIRLY NEW ONE, SINCE BANKS WERE ONCE LOCALLY OWNED, OFTEN BY THE PILLARS OF THE COMMUNITY. THEY WERE INSTITUTIONS SELDOM TAKEN ON IN COURT, AND ALMOST NEVER SUCCESSFULLY.

ings and loan cases often involving real estate loans.

The notion of lender liability is a fairly new one, since banks were once locally owned, often by the pillars of the community. They were institutions seldom taken on in court, and almost never successfully. Debtors who defaulted were viewed as deadbeats and pariahs and were given little legal consideration. Increasingly, however, there has been added a moral issue to the legal issue of a debtor's inability to pay. Lenders have become gigantic consolidated entities instead of locally owned concerns.

They are viewed by juries more as deep-pocketed, impersonal conglomerates greedily trying to add to their bottom lines, rather than as the rock-solid bastions of the community which can do no wrong. Many have, in fact, done wrong, and the public is aware of both criminal wrongdoing in the sav-

ings-and-loan scandal and a bill to taxpayers amounting to hundreds of billions of dollars.

The moral issue that has arisen concerns a lender's duty toward a debtor who cannot repay a loan through no fault of the debtor, but rather because of tough economic times. When such cases can make it to a jury, most jurors instinctively side with the debtor, particularly if the lender has adopted a defiant and egotistical attitude toward the debtor's unhappy situation. Some of the awards have been staggering.

As times have gotten tougher, debtors have gotten more aggressive. Many, literally, have nothing to lose. They already owe more than the value of all of their assets, and without an assault on the lender, they would certainly lose everything. With the right plaintiff's attorney, who is working on a contingency, they can hope to hit a home run against the lender. If they lose, they are no worse off than they were going to be anyway after defaulting on their loans.

If a debtor can move a case to the moral realm, then the case is not about what the documents say anymore. Rather, the case is about what is fair — who is the good guy; who is the bad guy — bringing in all of the facts and circumstances of the relationship between the parties, which may go well beyond the debtor's unconditional promise to pay on the note.

Lenders have learned the lessons of these cases the hard way. They have come to court to argue their claims based on legal documents, and found

Continued on page 40

Time management doesn't have to be difficult — if you learn how

Learn to let boss know the consequences of rearranging your priorities

(Editor's note: This is the conclusion of a two-part article on time management written by Rex Thornton, who died last October in an automobile accident. The first part was published in the October-November, 1990, issue of Progressive Rentals, along with a story on the popular management expert and friend to many in the rent-to-own industry.)

By Rex Thornton

Solutions to time-management problems

The solution to time problems created by management demands should be one of the easiest to handle. It is the objective of your management to en-

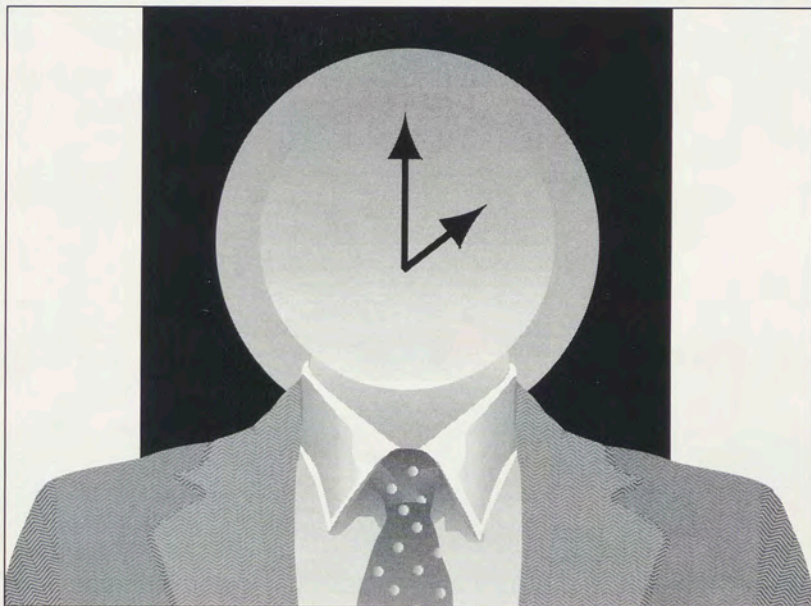
defense, and your only hope of not having to respond immediately to every little request, is to have a working plan of your own which includes your daily "TO DO" list. Then when your manager comes in with the latest "hot priority" you can show him or her your daily plan and ask how the new project fits within the priorities you've already

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priorities already established for the day. The process of time management focuses on first accomplishing those tasks that are high priority for you and then completing lower priority tasks when time permits — or when that task has been delayed until it becomes a high priority itself because of time constraints.

One place that you can "save" time in this area is with the time audit that was suggested in step 4 (see *October-November, 1990, issue of Progressive Rentals, page 43*). Every task has a certain routine that is a characteristic part of the job. Analyze those activities that you do on a daily basis to determine if there is a more efficient way of doing them — or even if someone else in the organization would get a higher payoff for doing them. Work these routine, repetitious activities down until they require the least amount of your time.

The solution to peer demands for your time are even more difficult to manage than are those for management demands. Part of the difficulty in managing these time-related problems is that your ego may become involved. You feel good when a peer comes in to ask for help so you jump right in to solve their problem at the expense of your own priorities. The main reason that this can happen, again, is when you do not have a "TO DO" list with your priorities clearly defined. It is easy to let your ego dictate what to do when you have nothing against which to compare it to see where you get the best payoff.



sure that you are getting the greatest productivity out of your time at work.

Upper management, on the other hand, creates some of your greatest time-management problems by coming in with new projects and new deadlines. Since management has the right to do this, your only alternative is to do what management says when they say it — right? Not necessarily! Your best

give the new project to someone else.

If, however, management still wants you to carry out the new assignment, at least your superior knows that your priorities have been restructured and what tradeoffs have been made to handle the new project.

Notice that the purpose here is not to avoid taking on the new assignment, only to place it into the proper order of

When you have a "TO DO" list you can quickly see if you will have time to jump in and how long you have to contribute. If you have no time today because of higher priorities, you can easily show the other manager why you cannot give your time. Done in this way, the rejection is taken less personally than if you were only to say "no!" without having a legitimate reason for not helping.

The second part of peer demands on your time is even harder to evaluate and manage. This is the time allocated to "bull" sessions, jokes and general camaraderie and team building. These activities are important to the accomplishment of overall business results but they do take time. Again, the most viable solution is your "TODO" activity list. You can make a quick mental review of your remaining days activities and know whether you have a little time for casual conversation.

You want to be a team member and want to be liked by your peers but this must be balanced against getting the job done. If you "spend" too much time in conversation, you may have to "spend" some of your time after work hours completing the job. Or, worse yet, you may miss one of your deadlines. Having your activity list allows you to know when you must gracefully excuse yourself from the conversation so you have time to complete your job tasks.

One thing to remember about people who stop by for a visit: They may not have an activity list with their own priorities or they may just simply be putting off the start of a part of their job that they don't like doing. Either way, they are using you as an excuse for not working and at the same time they are keeping you from managing your time effectively.

Evaluate this over time to see if a particular employee is using visits with you to keep from accomplishing their

own tasks. If they are, you will find it much easier to excuse yourself from the conversation based on the need to complete one or more of your priorities. The other employee will not hold it against you because they will know that it is not personal rejection, simply that you have something to do that is part of your job. It may even help them to get started with the task that they have been avoiding at your expense. Be aware of this but don't overreact. There are times that our peers are caught up with their work and just want to visit. If you are caught up or are tracking satisfactorily, give them some time. How will you know, though, without your "TO DO" list?

The best answer to subordinate demands for your time was covered in a previous issue of *Progressive Rentals*. Delegation is the correct answer. It takes time to do correctly, but it is one of the high-payoff activities of your job. Every manager is responsible for the training and development of his or her employees. Delegation, done by the steps outlined in the last article, is one of the ways that you ensure development is being accomplished. You are growing the employee to be able to make larger and more demanding decisions.

Another way of handling this time demand is accomplished entirely with management technique. When an employee comes to you with a problem, it is a natural act to solve the problem and give an answer to the employee. All that proves to the employee is that "the boss will take responsibility for making decisions." This solution does not do anything to help the employee know how to solve a similar problem in the future.

The next time that employee faces a similar problem he or she will come to you again to get the answer or to have you show them one more time how to do it. This is called upward delegation.

You are making decisions or completing tasks that the employee is being paid to do. The unfortunate thing is that you enjoy doing it. You like showing your employee that you know how to do the job and you probably like doing those less demanding parts of jobs that you once used to do. You are trapped again by your ego and by spending time doing things that are easy for you to accomplish.

While it may feel good, this can be your second biggest time waster. You do their job and then have to do all of your own job. This usually means that you have to take work home for overnight or weekend completion. How do you handle upward delegation?

The best answer that I've come across in more than 25 years of managing and training managers is a statement that I used to have over my desk at work. "Did you come with a solution, or are you part of the problem?" That one phrase points to the heart of the problem of upward delegation. Employees who come to you with only a problem and no suggested solution are being rewarded for non-performance. Each time you give them an answer, you reward them for not making an effort to solve the problem themselves. The correct way to handle upward delegation is:

1. When an employee comes to you with a problem, ask immediately: "What suggestions do you have for what caused it?" Or, "How would you suggest that we handle it?" If you do this each time the employee will soon learn that they are to bring possible solutions in addition to problems.

2. Review the possible solutions with the employee. Be sure to point out where they have used good logic and where they have failed to consider a critical factor. Then ask how they might

Continued on page 39



Tom and Myra Devlin now spend time together at work and home, since both have offices at Devlin Enterprises.

Tom Devlin:

A golden sense of timing

**Working-class
Kansan's Midas
touch built
Rent-A-Center**

by

John Gormley

Photo by John Oehm

The Midas touch.

Tom Devlin, in building the Rent-A-Center empire in an amazingly short time, seemed to be blessed with it every step of the way.

The golden boy of the rent-to-own industry, while only 26 years old, parlayed an initial \$30,000 investment — half of which came from partner Frank Barton and \$4,000 from his widowed mother, who used her house as loan collateral — in 1973 into a company that sold 14 years later for nearly \$600 million.

In less than a decade and a half, Thomas R. Devlin, a working-class kid from Kansas, managed to create:

- The largest and most profitable rent-to-own chain in the United States;
 - The first RTO company to go public (in 1983);
 - The only RTO company to be sold to an international conglomerate (in 1987), making Rent-A-Center a subsidiary with all the benefits of its parent corporation's sizable resources;
 - And an estimated 30 millionaires — members of his top management who held company stock when Rent-A-Center was sold to British-based Thorn EMI more than three years ago.
- Today, Rent-A-Center rolls along without much involvement from the

43-year-old entrepreneur, who owns his own company, Devlin Enterprises, to oversee various investments.

Devlin has downshifted from the torrid pace he maintained during the 1980s. One incident, in particular, caused Devlin to re-examine his life. It happened in June, 1987.

"I was in Canada fishing with my oldest son," he recalls, "and he had been struggling a little bit in school on a couple of courses. Finally, I said: 'Tommy, I'll tell you what. This next year I'm gonna spend a lot of time with you, helping. We'll really work hard on this stuff.' He looks at me and he says:

Tom Devlin: Building an RTO empire

1960s

- Tom Devlin and brothers Frank, Jim and Ralph (all of whom later work in the rental business) grow up under the care of their widowed mother in a poor but disciplined Kansas family.
- Dave Egan, who later becomes a trial lawyer and then chief legal counsel for Rent-A-Center, teaches Tom junior-high school English and coaches Frank on the school basketball team.
- The Devlin brothers graduate high school.

1970s

- Devlin attends Wichita State University, where he pursues several fields including accounting, business and marketing, and journalism.
- Devlin goes to work for Ernie Talley, owner of Mr. T's Rental. (Talley is considered by some to be the originator of the rent-to-own transaction.)
- He begins developing his ideas on quality products and volume buying for the rental business, but Talley doesn't want to risk making any drastic changes with his company.
- 1973. Devlin and wife Myra decide to branch out on their own. They take \$11,000 in savings, add a \$4,000 loan from his mother and combine that with \$15,000 from partner Frank Barton. They use the \$30,000 initial investment to open a one-store operation in Kansas City, Mo., that would ultimately become Rent-A-Center.
- 1975. Mid-America Leasing, which later has its name changed to Rent-A-Center, is the first rental-purchase company to add appliances to its product line, supplementing traditional electronics — TVs and stereos.
- Store No. 10 opens by the end of 1978.

1980s

- As the new decade begins, store No. 25 opens.
- 1981. Company name is changed from Mid-America Leasing to Rent-A-Center of America.
- 1982. Rent-A-Center's first multiple-store acquisition.
- Despite the inherent problems with furniture — increased inventory, delivery and ordering hassles — it is added to the Rent-A-Center product mix. It quickly provides more profit than Devlin uses to further grow the business.
- Because the company needs capital to grow, Devlin solicits limited partnerships in Rent-A-Center — a concept that he borrows from Dan Carney, cofounder of Pizza Hut.
- Realizing that Rent-A-Center will need added expertise to grow much further, Devlin establishes an outside board of directors. He turns to friend Dan Carney, who introduces his brother and Pizza Hut cofounder Frank Carney. Frank Carney becomes a valuable board member who lends Rent-A-Center his expertise through the expansion years.
- Acquisition of more than 20 stores from Jet TV Rental, opening up entirely new markets for Rent-A-Center such as Cincinnati, Dallas, Denver and Nashville. With the purchase, Rent-A-Center eclipses the 50-store mark.
- Rent-A-Center establishes a corporate legal department, with Devlin's former junior-high English teacher, Dave Egan, as chief counsel.
- Monday, Nov. 21, 1983. Rent-A-Center goes public with an initial offering of 1,425,000 common shares at \$14.50 each. The stock is gobbled up in a matter of days, and the influx of capital vastly expands Rent-A-Center's ability to add stores and purchase inventory on volume discounts.
- 1984. The company's first franchise store opens. Rent-A-Center begins to follow the lead of the fast-food industry (specifically, Pizza Hut) in pursuing franchising as a profit center.
- Also in 1984, the company exceeds 100,000 units on rent.
- 1985. Another acquisition adds 23 stores to the burgeoning Rent-A-Center chain.
- Nineteen-eighty-six is a year of milestones for Rent-A-Center. Corporate stores reach the 200 mark, while the franchise network grows to 50 stores. At the same time, total revenues exceed the \$100 million plateau.
- 1987: The sale to British-based conglomerate Thorn EMI for \$594 million. The transaction reportedly made close to 30 executives (major stockholders) instant millionaires.
- The key management team at Rent-A-Center remains in place, although Devlin fulfills his personal goal of stepping down as CEO to spend more time with family. Bud Gates, one of Devlin's high-powered recruits from Pizza Hut, becomes the new CEO. Devlin maintains a relationship with RAC as a consultant. A separate company, Devlin Enterprises, is formed.

1990s

- Rent-A-Center has continued its phenomenal growth into this decade. Corporate stores are approximately 700, while franchise units approach the 300 mark.

'Yeah, sure, dad. How are you going to help me when you're never home?' "

When Devlin returned home and told his wife, Myra, about it, she pulled out a calendar and immediately pointed out the number of weeks he'd spent away from home the previous year. The total was 41.

It struck a chord with Devlin because he suddenly understood the magnitude of the problem, and that his wife apparently had been aware of it for some time. "I knew it had to be bothering her because why else would she be keeping track of that?"

His two sons and wife needed him, but the demands on Devlin's time as Rent-A-Center CEO and chairman of the board were taking a toll. "That's when I decided, hey, it's time to sell," Devlin remembers. "So I went to the board and said: 'Guys, the stock market's high.' And, the truth is, there were nothing but positive reasons for us to sell."

The rest is, to evoke an often-used cliché, history — at least in rent-to-own circles. Rent-A-Center, leader in the U.S. RTO industry with a then-estimated 10 percent market share, had a solid profit history. Thorn EMI, an international conglomerate whose rental subsidiary dominated the European business, wanted the same potential out of a U.S. chain.

In the summer of 1987, not long after Devlin's fishing trip with son Tommy, Thorn paid \$594 million cash, or \$27 a share for all 22 million shares outstanding, for Rent-A-Center. In RTO terms, it was an unprecedented deal that made Rent-A-Center's biggest stockholders (many of whom were its top executives) instant millionaires. The stock market was riding a crest, before the fateful October crash only several months later. For Rent-A-Center, it was a window of opportunity.

"A lot of people talk about luck; I like to talk about a sense of timing," says Fran Jabara, former director of Wichita State University's Center for Entrepreneurship. "Sometimes we perceive that (timing), and sometimes we just find ourselves there (luck). Tom's had a great sense of timing."

At the same time, Rent-A-Center's key people retained management control. "One thing that attracted us (to Thorn) was that their subsidiaries run strictly their own business," Devlin said in the *Wichita Business Journal* at the announcement of the deal. "And by that style of management, we felt real comfortable."

Devlin, however, stepped aside. Officially, he would remain a consultant to Rent-A-Center, but it was at this point that he extracted himself from the day-to-day operations of the company he cofounded. Bud Gates, a Pizza Hut transplant recruited by Devlin who was president and COO (chief operating officer) at the time, assumed CEO duties.

Tom Devlin, not unlike the legendary Phrygian king who had the power of turning everything he touched to gold, had done it again. He'd decided he wanted out, but not before he made another Midas move — the timely Thorn transaction — that would assure Rent-A-Center's continued growth and success.

•••

Along the way, Devlin built a career — and Rent-A-Center — on such shrewd maneuvers.

— Early on, Devlin developed a philosophy that embraced quality people and products. A big reason why he left Mr. T's was because he wanted to offer name-brand products at competitive prices. To do that, he needed the kind of discounts only available to volume buyers. His first big order from an elec-

tronics manufacturer was a real risk, since he had to borrow heavily to pay for it. He gambled that six-month sales would cover the sizeable debt. They did.

— Devlin's was the first rental-purchase company to add appliances and then furniture, once considered problem products, to the mix. They turned out to be additional sources of revenue that helped Rent-A-Center grow.

— He adopted the concept of limited partnerships and later hatched the idea of taking the company public. Both strategic moves gave Rent-A-Center quick infusions of capital needed for further expansion.

— Recognizing the kinds of external challenges the industry would naturally begin to face as it matured, Devlin established a corporate legal department, headed by Dave Egan, in the early 1980s.

Fran Jabara's assessment is correct: Tom Devlin had an acute sense of timing. Perhaps that, more than anything, explains his seeming ability to turn everything he touched into gold.

Devlin, though, tries to downplay his accomplishments when asked about them. He likes to spread the credit around. "People don't achieve a high level of success without a lot of help along the way," he says.

Others give him credit for cultivating talent within the rent-to-own industry — and for finding it from without. Jabara says Devlin regularly sought out the top minds in business, and adopted their secrets to success wherever it fit the Rent-A-Center scheme.

"Tom was always asking for that kind of input," said Jabara. "I think that's a unique characteristic because many entrepreneurs just feel like they know how to drive the car and don't want any suggestions on how to do it.

"That I did not find in Tom." PR

The following question-and-answer section with Tom Devlin is rare, since he hasn't granted many interviews for publication during the last few years. In it he candidly discusses some of the creative gambles that led to Rent-A-Center's growth; he shares his beliefs in quality products and people; and he talks about what he's doing these days. Turn the page ...

John Gormley is editor of Progressive Rentals.

Tom Devlin:

A candid chat with an RTO titan

Tom Devlin has always been somewhat of a mystery in rent-to-own circles. Sure, everybody in the business knows him as founder of industry titan Rent-A-Center. But what most wonder is: What has Devlin been up to lately? Also largely unanswered: How did he accomplish the unprecedented things that he did, before dropping from the RTO scene a few years ago?

Devlin and Remco founder Chuck Sims, another Kansas native who also got his start in the rental business with Ernie Talley of Mr. T's, have a lot in common. Both entrepreneurs, after handing over the reins of their respective rent-to-own companies in the late 1980s, became somewhat detached — only in varying degrees.

Sims did stay in touch by conducting seminars for the industry trade organization, APRO, which he and Devlin helped found. Devlin, meanwhile, virtually disappeared.

"He is a very private person," says Devlin's assistant for the last five years, Kathy Dieker. "He doesn't let what happened in the past cloud his vision of the future."

Today, Devlin oversees his investment company, which is housed in a new office building not far from Rent-A-Center's headquarters in Wichita, Kan. He values his privacy, especially for his family's sake. He and wife Myra have two teen-age sons, 14 and 16, and Devlin coaches their school golf team as a volunteer.

"My philosophy is that there was high school with friends and neighbors; then there was college, and that was a part of your life; and then you went on to start your business life and that became a new part," Devlin says. "And if you shift from one industry to another ... the rental business and being a part of it was fun and it was great, but that was a part of my life that's over. I've got a new life. I don't go back."

The 43-year-old has made one exception: He granted the following interview with *Progressive Rentals*.

PROGRESSIVE RENTALS: You and Chuck Sims are widely regarded as the two top figures of modern-day RTO, and you seem to have a lot in common. Both of you are Ernie Talley products (Mr. T's) who later branched out on your own, expanding and revolutionizing the business in the process. What's the main difference between you and your Remco counterpart?

DEVLIN: Chuck's probably the most innovative guy there ever was in the rental business. Many people were innovators but not executors. A lot of people were great executors but not as good at innovating. Chuck was the greatest innovating guy in the entire rental business and was probably responsible for more things that happened in the rental business, but Rent-A-Center was always the greatest executor. Many, many times we could see why somebody else was doing something and why it wasn't working — and made it work for us when it didn't work for them. We were very innovative in our own right, but we were probably the best executors, which is what makes things happen.

PROGRESSIVE RENTALS: Rent-A-Center made some incremental jumps that many companies never make because management is unwilling to change or the original entrepreneur's ego won't let

him bring in new blood to tackle the bigger challenges. Yet you apparently saw what needed to be done at each obstacle in the path of growth?

DEVLIN: Obviously, my biggest strength was hiring good people; training good people. If you grow the people, the business grows. If you don't grow the people, the business can't grow. I'm a good planner. We were always working on what was going to happen next year and the following year. Of course, I think most guys get involved with running the day-to-day operation. And most of the other guys in our business — I can look at them today versus 15 years ago — most of them haven't changed. They're the same guys.

Well, you have to grow as much yourself as your business has to grow to keep up. You, personally, have to grow tremendously. But who's going to help you grow? Fortunately, I went to an outside board when I had 10 stores. Now obviously a company with 10 stores doesn't need an outside board of directors. And most guys don't want that because they don't want somebody telling them what to do — they're entrepreneurs; they own their own business.

But I knew the only way we could grow is if we had outsiders who had been where we were going to go. Now they hadn't been in the rental business. For instance, I brought in Frank



Obviously, my biggest strength was hiring good people. If you grow the people, the business grows.

Carney. He was the founder of Pizza Hut. He came on the board. We brought in a guy named Ken Wagnon, who had 200 Pizza Huts — one of the largest Pizza Hut franchisees. So we were going to go from 10 units to 200 units, hopefully, and use his expertise on how to get there. And, of course, once we got to 200 units we would need someone to help us get from 200 units to 1,000. And Frank Carney's already been there. And then we brought in a guy who had built a large accounting firm who was also on the board of directors of Beech Aircraft and helped them go and actually ended up selling Beech Aircraft to Raytheon.

So my thoughts were: "Okay, when I get to some point where I might want to sell ..." I was thinking of all my alternatives down the road and trying to put together a board of directors who had been there and who could then help grow us to those areas.

PROGRESSIVE RENTALS: The result was the opening up of the rental industry to new ideas?

DEVLIN: Most of the people in the rental business grew up in the rental business and learned just what was going on in our industry. Our industry was so backward and so behind anybody else's — because it was so new. There was nobody in the industry to grow. So you had to do it outside. Fortunately, Wichita is an entrepreneurial city and I was able to find some people who could give me expertise that probably most people in our industry couldn't — or weren't smart enough to realize they needed. And that's usually what the case was: They all thought they were just fine and they were doing good and their numbers were good.



My goal was to have 10 stores, when I started ... I never had the intention of being wealthy ...

But nobody in the rental industry ever solved the hurdle of management. My strategy was to figure out how to do that. And, to do that, I learned several things. One is the rental business tends to have a life cycle of two to five years with good employees. You burn 'em out. It is a more intensive business. People in middle management are working 80 hours a week, they're traveling, they're on the road. Their family life goes to hell. They may be making good pay, but it's not a fun deal — after a while — if you're a store manager or whatever.

Plus, it's an entrepreneurial business. Even the good guy who did a good job — he either burns out or decides to go into business for himself. What I realized was there wasn't any sophistication. There was never anyone who had any planning behind them — marketing, all the different skills you need besides just managing people. It just wasn't there.

So as far as your middle management to grow your company with; you could grow store managers but you couldn't grow middle management because it just wasn't there. Most industries, if you want a vice president of finance, there's somebody out there working for your competitor somewhere. Well, we were such a new industry there wasn't anybody. Accounting firms didn't really understand our industry. If you wanted a marketing director, where were you going to get one? Because there wasn't anybody who had any experience marketing rental. I had been the advertising director for the largest rental company before we started Rent-A-Center.

PROGRESSIVE RENTALS: Was that with Ernie Talley?



Too many people react to today's problems and never get a line on what needs to happen over the next ... year.

DEVLIN: That was with Ernie Talley. So I had more marketing experience; more advertising experience, than anybody in the industry, which also helped in the early stages because I did all the advertising myself. And later on, after I brought in the marketing director from Pizza Hut to be my marketing director, I was able to have a pretty good feel for what would work and what wouldn't.

So what I found was, "Okay, I've got to find outside industries that their employees can run our business ... with some sort of relationship." For instance, fast-food people are used to working 60, 80 hours a week. They're used to working holidays, Saturdays and Sundays. Now our business can have Sundays off. That and being closed on holidays might be appealing.

And the sense of urgency in the rental business: It has to happen right now. Some people have that and some people don't. People in the fast-food business have that sense. Take a guy managing McDonald's. If somebody doesn't show up to cook, he's back there running the griddle. And that's the kind of guy you need to bring in the rental industry because everybody in our business does multiple jobs. It's part of what's made our business successful. You don't just hop on the phone and make sales. Or you don't just do collections. Or you don't just do deliveries. Our employees are multi-faceted; they're doing a lot of different jobs. That's also true in fast foods.

And then we found credit-collection people. Bank people didn't ever work out but finance-company people did, because they were used to having to get in a car and go out and chase people

Photos by John Oehm

Devlins committed to helping next generation of entrepreneurs

Wichita, Kan., is considered the cradle of entrepreneurs.

It is the spawning ground of startups that become major corporations. For instance, Wichita is the original home to such household-name

companies as Pizza Hut, aircraft concerns Beech and Cessna, Coleman recreational equipment and, yes, Rent-A-Center.

Wichita natives are usually hard-pressed to come up with a concrete answer as to why their city has produced so many successful

businesses. Contributing factors include a regionally ingrained work ethic and the business community's partnership attitude toward higher education.

Thomas R. Devlin and W. Frank Barton, cofounders of Wichita-based Rent-A-Center, share that sentiment. Both have contributed money to support Wichita State University's business administration and entrepreneurship programs.

In fact, Devlin Hall serves as centerpiece for the school's special entrepreneurial studies program, while the university's college of business is named after Barton.

In 1987, Devlin and his wife Myra donated \$1 million to Wichita State for construction of the \$2.1 million building. The \$1 million earmarked for the building was part of \$5 million total that the Devlins pledged to help fund various WSU programs.

Myra Devlin says the entrepreneurial program provides students with valuable practical knowledge on starting a business, without having to "make some of the mistakes Tom and I made. There was a lot of trial and error

and research work that we had to do the hard way."

Devlin Hall has served as a symbol for the university's nationally recognized program. "The building really took on what I call a national dimension because it's the first building of that size pertaining to entrepreneurship," says Fran Jabara, former director of the center.

"We thought of ourselves as leaders in the academic programs as well as the non-academic programs, so we thought the building would also be a statement that we'd like to make," adds Jabara, the ex business-school dean who founded the university's entrepreneurial studies program in 1977.

Jabara was dean of the business school during the time Devlin attended Wichita State, and says he has a lot of admiration for the student-turned-entrepreneur, who has since lectured to students at his alma mater.

"I've known Tom from the time he was a student and I've certainly grown to respect him as a businessperson as well as an individual," said Jabara, who now directs his own venture-capital group out of Wichita. "Here was a young man who was able to pursue his dream and cause it to happen. We asked him to lecture the class because he is one of those nice success stories who comes from a modest background into a major kind of entity.

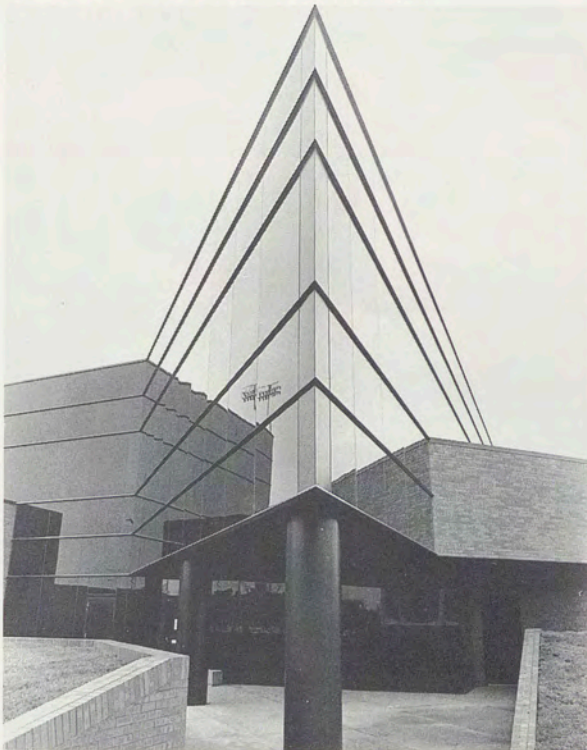
"And that's the kind of thing that we try to show our young people."

Jabara's point is well taken. Devlin was only 26 years old when, in 1973, he and Barton pooled \$30,000 to form the one-store operation that later became the largest and most profitable rent-to-own company in the United States.

Photos ©The Wichita Eagle/Fernando Salazar



Tom and Myra Devlin, top right, are honored during dedication ceremonies last spring for Devlin Hall, on Wichita State University's campus.



Devlin Hall, with its futuristic design, serves as WSU's center for entrepreneurship.

PR

and do all that stuff, versus a bank employee just does it on the phone. He never did get himself dirty.

What we had to do, basically, was find different areas that would work well in our business and start recruiting middle management from those companies. One side of the coin is that we had to teach them to run a (rental) business and understand how the business is run. On the other hand, they had many things to bring to us that could change the way we did things.

PROGRESSIVE RENTALS: You've been talking about quality employees; how that's been a part of your business philosophy. But another Rent-A-Center trademark seemed to be quality products. How did that part of the philosophy develop?

DEVLIN: When we looked to start Rent-A-Center the competition in the rental business was off-brand merchandise charging as high a price as possible and they were basically black (customer)-oriented rental companies. Nobody was really in the white market at all because the price and the product were so high nobody would do business with you. Plus, their locations in the central cities didn't work for both markets. My philosophy was: "Hey, I want to open up to both markets." To do that you needed better merchandise, better pricing and better locations. And, you had to give them better service. But at the same standpoint, when I started out, it was very tough to get name-brand merchandise because nobody that was name brand knew anything about the rental business. And we ended up starting out with Motorola and Sylovia,

which were about the only two name brands we could get to start. And then eventually we got GE and RCA and Magnavox and turned the corner with Zenith and Sony. It took years to cultivate.

PROGRESSIVE RENTALS: So you actually had to court suppliers, and not the other way around?

DEVLIN: Oh, absolutely. They were not interested in getting into the rental business at all. I'll never forget, to take on RCA I went to RCA when we had probably six or seven stores. I remember I was going to order about 40 sets — or something like that. Of course, as a national account, that's nothing. So, I'll never forget — the sales manager made some sort of a comment like, "What will your initial order be — 300, 400, 500 sets?" And I thought, "Uh-oh." But I knew at that point, when he asked that question, that he also was halfway thinking: "Maybe I ought to take these guys on." So I said, "Yeah, our initial order will be about 400 sets." And he said, "Well, I think we might be able to work that out." Well, what I ended up doing is buying a six months' supply for all of my stores on the initial order — just to get in the door. And, so, I kind of bluffed them; I said, "Well, that's my initial order, but I've gotta tell you GE wants to do business with us. And you've got to understand that I can't do business with both of you. So I'm giving you the first shot. But if you don't want it, that's fine, GE's got it." He obviously did not want me to go somewhere else. I had not even talked to GE, but I didn't tell him that. So then I went to GE and said: "Hey, guys, RCA wants

us." And GE couldn't move fast enough to let me be a dealer. Within two months after I took RCA on they came back and I didn't have to give them the big order; they just took me on.

We went from having to buy through distributors, a couple name brands, to overnight being a national account with both. But I'll never forget, we bought six months' supply and our debt went way up. I mean, I took a risk and if business hadn't been good and the numbers we hit over the next six months hadn't happened, we could have been out of business. But I had to take that risk.

PROGRESSIVE RENTALS: That was your goal in the first place — to provide better products, and yet competitive prices, through volume buying.

DEVLIN: Right.

PROGRESSIVE RENTALS: When did you get the drive to develop a big chain? Was there ever a time when one or two stores would have been enough?

DEVLIN: Well, my goal was to have 10 stores, when I started. And I realized 10 stores could just about support me and do anything I wanted to do and I never had any intention of being wealthy or anything like that. I just kinda wanted to make a good living and, in fact, I would say five to 10 stores (is all) we'll probably really eventually grow. Because I knew the problems Mr. T's had; how it was run — and he had 13 stores.

Continued on page 46



Photo courtesy of Rent-A-Center

The Wichita, Kan.-based corporate headquarters of Rent-A-Center, built during cofounder Tom Devlin's tenure as company CEO.

FINANCIAL SUMMIT,
continued from page 14

to APRO members and contributors to the APRO Special Projects Fund. The lenders' package will be a tool to educate bankers and other lenders on the rent-to-own industry and cash-flow financing, Keese said. Contributions to the APRO Special Projects Fund will help pay for development of the lenders' package.

Ed Winn, APRO legal counsel,

presented a discussion on negotiating points within lending documents. Winn identified more than 30 points where negotiations need to be conducted in a typical contract.

"Financing is the most important issue in rent-to-own today," said APRO President Ted Wilson. "APRO will continue to have a proactive role in this developing issue." **PR**

FINANCING,
continued from page 14

goods rented without considering all of the other costs associated with running the business. And, of course, there is no marketplace for selling rental agreements at a discount; retailers, meanwhile, regularly do so with their consumer notes. Rental agreements do not represent obligations either from a legal or an accounting point of view. One store will use up \$175,000 to \$250,000, depending upon average cost of goods and the market, to get to break even on a cash-flow basis in anywhere from nine to 18 months. That means a dealer can go a quarter of a million dollars into debt in a short period of time before a store quits losing money and the dealer can even think about starting to repay on the loan.

Because of the amounts of money involved and the perceived risk, the first loans were term note loans with a scheduled 18-month payback. Lenders first tried 12-month notes, but dealers discovered that their rental rates on a 12-month rental program were too high for most rental customers. After some experimentation, lenders and dealers settled on 18 months, both for the term of the inventory financing note and for the rental agreement as well. Although rental terms vary considerably today, 18 months has remained a benchmark for the industry. Longtime rental dealers have said that this industry-standard 18-month agreement with customers comes less from a careful analysis of consumer preference than from the financing terms dictated by the lenders in those early days.

During the 1970s, especially during the late '70s when a handful of companies were showing strong profits, professional management and the capability for sustained growth, these industry leaders got revolving loans from finance companies and a few got revolving loans from banks. These loans were for a term of several years, and bank loans were tied to traditional measures for corporate loans: debt to equity; short-term assets to short-term liabilities, etc. For the most part, however, dealers until the early 1980s were

Continued on page 36

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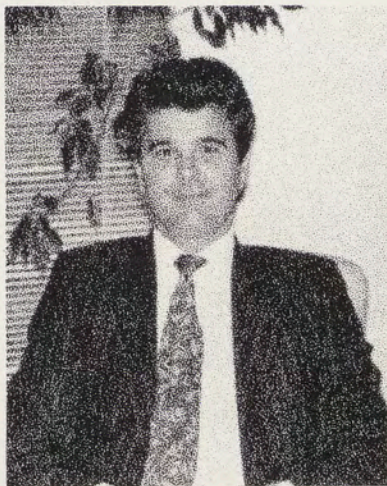
MESSAGE

November was an interesting month for me, one during which I learned a lot. Some of the lessons that I learned I am still digesting and will report on later when I feel I have absorbed their full import. Others, however, I feel are ready to be shared.

For example, I attended the financial summit in Atlanta a few weeks ago and gained there a new perspective on rent-to-own financing. Before the summit I was acutely aware that financing an RTO business has been a worrisome issue for

Putting the issue of RTO financing in perspective

many dealers for some time. To put it simply, money is tight — not just for RTO but for business generally. When I first began reading of the commercial credit crunch and predictions of a recession, I thought, naturally enough, that consumer credit would shortly dry up, too. Such a restriction should, then, help our business, and I had been forecasting a bump for RTO in the near term.



BY ED WINN III

reasonable minds still differ over the issue of whether we are in or are heading for a recession. Regardless, it is a fact that the availability of consumer credit has not shrunk appreciably, yet. This is so because interest rates remain relatively low. Consumer lenders can "buy" money at single digit rates and "sell" it at healthy double digit rates. All of us are still seeing lots of TV ads hawking virtually guaranteed credit cards. The ready availability of consumer credit will continue to draw off customers from the best conceived RTO programs.

At the other end, the borrowing end, dealers have seldom had it worse. At the financial summit I learned that lenders are rethinking the whole RTO issue because of the numerous business failures the industry has seen during the past few years. If dealers were to review their business projections from a few years ago, during the mid-1980s, they would all see that the subsequent reality disappointed those expectations. The problem is that dealers and lenders alike believed those forecasts. The result? Widespread defaults or at least troubled loans from the lenders' perspective in today's market.

I learned also that the current situation is not 100 percent the dealers' fault for misforecasting the future or otherwise

failing to grow. Lending policies changed in the mid '80s as lenders went from scheduled pay loans, with required principal reductions every month, to revolving loans with interest only payments. That put excess money in dealers' hands without sufficient safeguards to ensure that they invested the borrowed money in the business. Some irresponsible dealers

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WINN

borrowed and spent money on other things besides the business and ran the debt up without adding value to the lenders' collateral — the RTO stores. Revolving loans can work when a company is growing fast and the debtor is using the loan to grow the business. Finally, though, even revolving loans have to get repaid. In an era of no growth, there is not enough cash with which to pay down principal, and the debt just sits there on the books. Interest payments eat up all the extra cash, and a number of dealers, despairing of ever getting out of the hole, have simply abandoned the effort by giving their stores to the lenders. For the most part, lenders are in the business to loan money, not rent TVs, and the current situation is unsettling to all concerned.

The dealers who are left are indeed paying for the sins of those who came before and overborrowed. The new tightened lending guidelines may disappoint, but should not surprise, RTO dealers when they stop to consider the troubled state of lenders' RTO portfolios. Company by company, dealers may think that since they have always made payments on time and have remained well within loan limits, the rules applied to them shouldn't change. For lenders, however, they believe it is imperative to reestablish some discipline into the borrowing practices of the industry as a whole, even when such a policy may work a hardship on individual "good" customers.

While I have been aware of the financing issue for several years, actually, the financial summit helped put the issue in perspective for me. (Yes, I am aware of the several lender liability lawsuits that

Continued on page 44

Lenders ... believe it is imperative to reestablish some discipline into the borrowing practices of the industry as a whole, even when such a policy may work a hardship on individual "good" customers .

Rent A Prestigious Impression

RCA





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600 N. Sherman Drive, Indianapolis, IN 46201

Delivery trucks get sophisticated in design, features

RTO delivery vehicles: The choices

FLX-Master



Utilimaster



Classic Fleet Group



This past year has seen a not-so-quiet revolution take place in RTO fleet delivery trucks. Three manufacturers have entered the rent-to-own industry in a big way — FLX-Products, Utilimaster and Classic Fleet Group.

All three manufacturers have been successful in marketing to RTO dealers, with products specifically designed for the industry that offer a wide variety of options.

For this comparison, we asked the manufacturers to provide us with photos and detailed specifications of their most popular RTO trucks.

Both FLX-Products and Classic Fleet Group base their most popular RTO delivery truck on a mini-pickup chassis. FLX-Products uses a Toyota One Ton dual rear wheel cab/chassis and Classic employs an Isuzu S44 cab/chassis. As an additional option, both companies can build a cargo box on virtually any other size truck chassis — to meet customers' specialized needs.

Utilimaster has taken a different approach with its delivery trucks, which feature custom-built frames, and Chrysler engines, brakes and drivetrains. An interesting note about Utilimaster: Its parent company is Harley-Davidson, Inc.

The dealers we talked with are very satisfied with these three product lines. Each company's delivery truck has its own unique attractions, and that's why they meet the individual needs of dealers who have chosen them.

Space wouldn't permit us to compare all options available on these trucks. We are providing the names, addresses and phone numbers of the three manufacturers for your convenience. The editors of *Progressive Rentals* encourage those of you who are interested to contact these manufacturers for more information.

— Bill Keese

For more information:

▶ Jeffrey T. Leskosek, Chairman
Wayne M. Kohlmann, President
FLX-Products Industries, Inc.
P. O. Box 520
Pikeville, Tennessee 37367
(615) 447-2187
1-800-826-2823

▶ Tim Walker
Classic Fleet Group
3230 Satellite Blvd.
Duluth, Georgia 30136
(404) 497-9362
1-800-292-6553

▶ Janet Roark, Manager/National Accounts
Utilimaster Motor Corporation
65598 State Road #19
P. O. Box 860
Wakarusa, Indiana 46573
(219) 862-7610
1-800-537-7169

PRODUCT COMPARISON

VIDEO,
continued from page 12

RTO delivery-vehicle specs at-a-glance

	FLX-MASTER	UTILIMASTER	CLASSIC FLEET
Model	Toyota One Ton Duel Rear Wheels	Aeromate	Isuzu S 44
Manufacturer	Flx-Products Industries, Inc.	Utilimaster Motor Corp.	Classic Fleet Group
Engine	3.0 Liter V-6	2.5 Liter 4 cyl. 3.3 Liter V-6 (optional)	2.6 Liter 4 cyl.
Transmission	Automatic with overdrive	4-speed automatic	Automatic
Cargo Area			
Interior			
Headroom	6 Ft.	6 Ft.	6 Ft.
Width	6 Ft. 6 In.	5 Ft. 9 In.	6 Ft. 5 In.
Length	10 Ft. 29" cabover	10 Ft.	8 Ft. 2.5 In.
Cubic feet	438	317	316
Floor	3/4" fpr plywood, steel floor sills	.125" strain-hardened aluminum	1/2" fpr plywood over aluminum, steel crossmembers
Exterior			
Height	8 Ft. 7 In.	7 Ft. 10 In. approx.	N.A.
Width	6 Ft. 6 In.	5 Ft. 11 In.	6 Ft. 6.5 In.
Length	126 in.	108 in.	104 in.
Floor Height	28" - 34"	20 in.	N.A.
Rear Door Opening	69" x 66"	46" x 67"	70" x 60"
Specifications			
Wheelbase	137"	127"	N.A.
Weight	6,000 lb.	5,500 lb.	N.A.
MPG	15 mpg	16 mpg	19 - 21 mpg
Payload capacity	2,000 - 2,200 lbs.	2,050 lbs.	1600 - 1800 lbs.
Fuel capacity	17.2 gal.	20 gal.	14 gal.
Tire size	185 / R14	LT 195 / 75 R15	N.A.
Standard features	Aerodynamic cabover, roll up rear door, slide out frame mounted ramp, lined interior w/ tie rings, rear dome light, full width step bumper, mud flaps, undercoated body.	High-back captain's chair w/arm rests, power steering, power brakes, tilt steering wheel, intermittent wipers, cargo bay & dome cab dome lights, sliding cab doors, duel swingout cargo doors.	Power steering, duel wheels, seamless fiberglass lining, interior dome light w / rear switch, backup beeper undercoating, 26 rope ties, mud flaps.
Options	Lift gate, back up alarm variety of floor & wall linings, ac, power windows, cruise, special dimensions available, tie downs	Hinged rear ramp, E track on sidewalls for tiedown, solid bulkhead separating cab from cargo area.	Air conditioner, AM/FM stereo/cassette floor mats, 5 year/100,000 mile warranty, maintenance warranty available.

and that varies from one state to another, from one city to another, and from one section of the city to another. This is probably not news to veterans in the industry, but the results from our brief, informal survey are revealing.

Tom Gamelli, manager of The Rental Center of Western Massachusetts in Holyoke, says he no longer carries large-screen televisions because when he did, the people couldn't really afford them, although some tried. Now, he says, they don't even ask and settle instead for 20- and 27-inch models and two-head VCRs.

Customers of Ace Rent-to-Own in Omaha, Neb., one in a chain of seven stores in Iowa and Nebraska, like 13- and 19-inch TV/VCR combinations, as well as 20-inch televisions, according to Jeff Leach, regional manager. Most interest in projection televisions is for short-term rentals, and Ace gets virtually no requests for stereo VCRs and televisions. Leach expects increased interest in stereo, however, now that stereo sound is more widely available in the area.

American TV and Appliance Rental in Palmetto, Fla., doesn't have much demand for big-screen televisions, but does a brisk business in stereo VCRs and stereo television. Demand increased last Christmas season after a local TV story boosted interest in stereo equipment, according to Joe Paladina, store manager.

John Rondeno, coordinator for four Easy Rental stores in the New Orleans area, believes customers want every feature available, but only if they're convenient and easy to operate. His store rents many 19- and 25-inch units, as well as some wide-screen, projection televisions.

Customers in the Bay area want high-tech, on-screen features that will impress their friends, according to San Jose, Calif., Rentronics store manager Jim Wharton, and they want the television up off the floor. His customers appreciate a universal remote.

PR

Barbara C. Stooksberry is a Texas-based freelance writer. Joel B. Mathews is a graphic designer from Louisiana.

Fitzsimmons joins APRO government affairs department

Carolyn Fitzsimmons has joined the APRO staff as its assistant director of government affairs.

She replaces D.J. Thomas, who resigned from the post in November.

Fitzsimmons has extensive experience in working political campaigns and managing computer databases, including the coordination of direct-mail materials — areas that fit the APRO position well, according to Ron Waters, APRO director of government affairs.

She graduated from an Austin, Texas,

high school and went right to work in a governor's race. She later worked in the Texas House of Representatives during the mid-1970s and moved with her husband, Paul, to Oregon in 1976.

Career assignments have taken the Fitzsimmons family, which includes an 11-year-old boy and 9-year-old girl, to Oregon, Washington, New Hampshire, and they've also lived in Germany and Belgium.

After 14 years away, the Fitzsimmons moved back to Austin, where Carolyn went right to work on another political campaign

—this time for a candidate running for a seat on the Texas Supreme Court. Her candidate won in the general election this past fall.

"In a political campaign you do all the grunt work," she said. "Everything from mailouts, phone work — just keeping in contact with a lot of people. From what I've seen so far in the APRO office, there are a lot of similarities."



Carolyn Fitzsimmons, assistant director, government affairs

Spring seminar set for Mexican resort

Last year's APRO Caribbean cruise seminar was a smashing success. Unfortunately, several people couldn't attend because of limited reservations. All year, dealers have been asking, "What is APRO planning for 1991?"

Reserve March 11 through March 15, Monday through Friday, so you can enjoy beautiful and exciting Nuevo Vallarta, Mexico. This year's vacation seminar will be at the new Jack Tar Village in this exclusive and totally self-contained resort community, just 15 minutes from downtown Puerto Vallarta.

Everything is included in this adventure. Roundtrip airfare from Dallas/Fort Worth International, room, meals and all you can drink, including cocktails, house wines and beer. After a day of tennis, golf, horseback riding, donkey racing or body surfing, enjoy a massage to loosen those tight muscles. All of these activities are yours for one low price, \$835 per person, double occupancy.

APRO members services staffers have reserved 20 rooms to accommodate 40 people for this one-of-a-kind adventure. Don't be left out this year. Take a break from the dreariness of winter and join other rent-to-own dealers in sunny Mexico.

For more information, consult the vacation seminar brochure that was mailed to you or call Shelley Martinek at the APRO office — (512) 794-0095.

APRO Application for Regular Membership

(Open to those who offer products on a rent-to-own/lease-purchase plan.)

Owner Information

Company name _____ DBA _____
 Owner's name (Last) _____ First _____ M.I. _____
 Home office address _____
 City _____ State _____ Zip _____ Phone (____) _____

Dues

Please circle the appropriate dues category below. Regular members pay according to annual revenues. Please make checks payable to APRO.

Up to \$500,000 annually	\$400
\$500,000-\$1,000,000	\$800
\$1 million-\$2.5 million annually	\$1200
\$2.5 million-\$5 million annually	\$1600
\$5 million-\$10 million annually	\$2400
\$10 million-\$20 million annually	\$3200
\$20 million-\$40 million annually	\$4000
\$40 million-\$80 million annually	\$5600
\$80 million-\$160 million annually	\$7200
Over \$160 million annually	\$8800

Dues payments are deductible by members as an ordinary and necessary expense. Contributions or gifts to APRO are not deductible as charitable contributions for federal income tax purposes. Payment must be in U.S. dollars.

Membership Material

The following information must accompany your application and dues payment before your membership can be processed and approved:

- (1) A copy of your rental agreement.
- (2) A complete listing of your stores including the correct street address, ZIP code, and area code and telephone number.
- (3) A copy of your most recent print advertisement.

Please let us know:

How did you hear about APRO? _____
 What should be the goals of APRO? _____

Allow a minimum of 3 weeks for processing and approval.
 Recommended by: _____

I hereby make application for membership in the Association of Progressive Rental Organizations (APRO). I understand all memberships are for one year from date of signing. I hereby acknowledge the APRO Code of Ethics and agree to uphold its principles.

Signature:

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Associate Memberships

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DEC.-JAN. PR

When ordering diamonds and gold, dealers should know what to expect

Quality control's important, and reputable suppliers make the difference

By Claudia Filloramo

The popularity of rent-to-own jewelry is growing. Meanwhile, the price of gold changes from day to day and the margins remain slim. Luckily for RTO dealers, diamonds using the four Cs — cut, clarity, color and carat — on the Gemological Institute of America (GIA) scale establish a sound base for price comparison.

Labor and quality, if comparable, cost about the same. Why, then, can some suppliers offer what appears to be the same product for up to 30 percent less than market standard? It's a serious question, and it deserves some answers based on facts.

Gold underkarating

"Leaders in the jewelry industry are taking the bull by the horns to attack the insidious — and highly publicized — underkarating practice that is threatening legitimate businesses," wrote Judith R. Glass in the Oct. 16, 1989, issue of *National Jeweler*. "Quality is the central issue, they say, and this deception has the potential to undermine the entire industry if it isn't brought under control."

Many jewelry state associations have formed "vigilance" committees as a basis for their own monitoring systems. In the last year-and-a-half several major jewelry exchanges have been closed down for selling underkarated goods. Common examples of this practice are selling 7 karat as 10 karat and 10k as 14k.

The problem is, anyone can have a gold stamp made to print anything they want. For instance, a product (usually

chain) can be stamped "14k Italian import" when in truth it is 10k domestic. It could be stamped "made in heaven 24k" and no one would know the difference unless the product is assayed (analyzed), which is the only way to control the infusion of fraudulent products in the marketplace.

One piece of advice to dealers: Before you purchase, verify that the product is legitimately trademarked and the company is incorporated and registered with the Jewelers Board of Trade (JBT).

The ramifications of renting underkarated products are overwhelming.

Shaving casting weights and finishing

Two identical-looking castings could have as much as 3. DWT (DWT means penny weight; 20 penny weights equal an ounce) difference in gold, and this practice can equate to a tidy sum at the end of a normal production day. Without both castings in your hand (or on the gold scale) it would be difficult to compare weights, or to determine if you've been the victim of the "hollow-shoulder" plug method. Quality finishing is labor intensive — and that's costly.

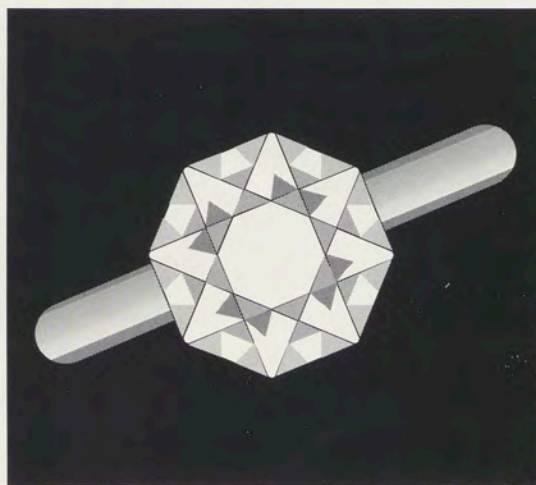
Dealer tip No. 2: Buy from manufacturers with 30-plus years experience and outstanding reputations. You usually get only what you pay for. Lost

stones and broken prongs will cost more in LRI (lost rental income) than the difference you might save.

All diamonds not created equal

Imagine 100 unset stones in a row; all are the same cut and carat weight. All of them are rated I₂ (see chart), and the stones to the right have an almost indiscernible difference to the I₁ stones. However, when matching stone No. 1 to stone No. 25 there is a visual difference, and by the time you match stone

No. 1 to stone No. 100 you probably wouldn't think it was the same quality you picked. The diamond is the only gemstone in which the absence of body color will usually make the



stone more valuable. Jewelers at all levels of the diamond-marketing structure traditionally have emphasized color as a factor in diamond values. Diamond color grading is very exacting. The fact that there are several color grades above the point at which body color is readily apparent to the keen-eyed layman is bewildering. The smaller a diamond, the more difficult it is to detect differences in tone.

A good analogy of the subtleties of diamond color can be drawn by a com-

Continued on next page

parison of relative "whiteness" among several pieces of paper. See how many pieces of white paper you can collect and compare. Start with a piece of paper from this publication, add a piece of facial tissue, tear off a piece of your daily newspaper, a sheet of notebook paper, perhaps a small index card and, finally, add the border from a high-gloss, slick-paper magazine.

This simple exercise provides a powerful parallel to diamond grading. Because no two vendors color grade exactly alike, it's necessary to establish a standard of comparison to effectively evaluate the diamonds offered by various suppliers. Most vendors use their own lettering or numbering system to restrict GIA comparison.

Hypothetical case: A less-than-reputable vendor has only so many "cherry picked" I1 stones. As the vendor's sales grow, instead of buying I1 stones in the range he originally showed, you'll begin to receive those less-than-acceptable stones as the vendor courts your competition.

Dealer tip No. 3: Establish, up front, the clarity and color grades you are purchasing. And demand consistency.

Jewelry, like any other rent-to-own product, requires specific product knowledge. RTO dealers who become knowledgeable about the jewelry aspect of their business will protect their investment in the product line. What's more, they'll enjoy satisfied customers — and profits.

PR

Claudia Filloramo is general partner of Rent-A-Rock and president of Key Rental of Florida, Inc. She pioneered the rent-to-own concept in Washington, D.C., more than a decade ago and more recently the



Claudia Filloramo

program of RTO jewelry nationally. She is also one of APRO's charter members and was the first treasurer of the national trade association.

	CODE	GIA TERMS	DEFINITION
Flawless	X	FLAWLESS	Absolutely pure internally with no inclusions; ideal cut and symmetry; no external blemishes.
	0	----	As above, but with a very limited amount of external blemishes; not necessarily ideal, but must be of very good cut and make.
Small inclusions	1	VVS-1 VVS-2	Very, very slight inclusions extremely difficult to see.
	2	VS-1 VS-2	Very slight inclusions, difficult to see or located in non-obvious areas.
Heavy inclusions	3	SI-1 SI-2	Slight inclusion can be seen that do not affect the transparency and/or durability.
	4	I-1 HIGH	Inclusions can be seen interfere slightly with transparency and durability.
	5	I-1 LOW I-2 HIGH	Inclusions can be just seen with the naked eye; definitely interferes with transparency and durability.
	6	1-2 LOW	Inclusions can be seen easily with the naked eye.

G.I.A.		OLD WORLD TERMS	
D	COLORLESS	FINEST WHITE	JAGER
E			RIVER
F	NEAR COLORLESS	FINE WHITE	TOP WESSELTON
G			WESSELTON
H	FAINT YELLOW	WHITE	TOP CRYSTAL
I		COMMERCIAL WHITE	CRYSTAL
J	VERY LIGHT YELLOW	TOP SILVER CAPE	CAPE
K		SILVER CAPE	LOW CAPE
L	LIGHT YELLOW	LIGHT CAPE	VERY LIGHT YELLOW
M		CAPE	
N	FANCY	CAPE	
O		DARK CAPE	
P			
Q			
R			
S			
T			
U			
V			
W			
X			
Y			
Z			
Z+			

Diamond clarity table (above)

GIA* stands for the Gemological Institute of America. Definition** means, except where indicated, that the observation was made by a trained professional using a 10 power (10x) magnification in normal light with an achromatic (color compensation) lens.

Diamond color comparison (left)

GIA's gem lab in Santa Monica, Calif., has the original set of master color-comparison diamonds used in its industry-standard grading system.

The diamonds define a sequence of colors, ranging from colorless through yellowish tints, thus creating a 'yardstick' for comparing the colors of other diamonds. Each letter on the scale describes a range of color, rather than a specific color.

It's also important to note that 10 diamonds, even though they're all the same grade ('G' for instance), can be 10 slightly different tones.

Original illustrations courtesy of Rent-A-Rock; graphically enhanced by artist Joel Mathews

TRIB helps make playing field level for the mid-size rent-to-own dealer

Rental industry buying group negotiates favorable rates on product lines

What is TRIB? In a highly competitive industry, rent-to-own dealers need all the help they can get. TRIB Group gives dealers the edge to compete with larger RTO chains and, as TRIB's membership grows, people in the industry are asking questions much like the following.

- Who and what is TRIB?
- Why are major manufacturers actively pursuing TRIB Group?

TRIB is literally The Rental Industry Buying Group. In its short seven-year history, TRIB has grown to be a major factor in the rental industry. With more than 60 members and 750-plus stores in some 40 states, TRIB's buying power is estimated to eclipse the \$90 million mark.

TRIB members' influence isn't restricted to rent-to-own vendors. In fact, TRIB members are officers and directors on boards of trade organizations such as APRO. TRIB members also hold the office of president of more state rental associations than any other group. In addition, TRIB member Allen Lewis, owner of Amigo Rentals, was named APRO Dealer of the Year during the national trade association's 1990 annual convention last summer in Orlando.

John Blair, TRIB's executive director, had more than 16 years of experience in the furniture rental industry, including an affiliation with Broyhill Furniture Rentals, before joining TRIB.

"In today's rental market, TRIB is profit-minded. That is, the profits of its members," said Blair, who has been with TRIB four years.

Blair explains that TRIB membership is a service that contradicts the "big boys" versus mom-and-pops mentality by giving smaller RTO dealers the kind

of volume discounts on product that only larger companies previously enjoyed. Blair says the conventional wisdom on rent-to-own operations used to be: "You had to get big, get small or get out" since the chains usually offered a better price, while the smallest of stores could offer service on a more personal level.

As a result, the nation's mid-size (10- to 30-store) operations were left in the middle. Many had to either sell out or

become a franchise operation. Either option meant that individual dealers had to give up independence — to one degree or another.

Enter TRIB, a group set up to negotiate the best pricing and warranty terms on rent-to-own product lines for its members. Blair says he tailors "all TRIB's (vendor) programs as close to net; net basis as possible." TRIB's programs don't include any "free vaca-

Continued on page 45

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on term notes, using trust receipts and associated paperwork to pay down 1/18 or 1/15 per month of their outstanding loan balances.

This lending arrangement minimized risk to both sides, really. The paperwork ensured that lenders only lent on inventory that presumably made its way into the stores, and borrowers had the discipline imposed on them not to borrow more than they were renting. In fact, dealers using 18-month straight line depreciation—which most were—saw that their required note payments, principal reduction and interest, on a cash-flow statement roughly equaled depreciation on their profit-and-loss sheets (P&Ls). Those numbers typically ran 25 percent to 33 percent of revenues.

But this lending arrangement finally worked to protect the lender better than it served the interests of aggressive

entrepreneurs who saw a burgeoning business and who wanted to grow, grow, grow. This system required dealers to use their own money for everything but inventory purchases and even profitable stores only threw off enough cash for moderate growth—nothing like the expansion plans of many dealers in the early '80s when economic conditions included high interest rates, a recessionary trend and a general squeeze on the availability of consumer credit.

In 1983, Rent-A-Center went public and successfully so, removing the financing shackles from Tom Devlin and his company. One of the main reasons companies go public, in addition to allowing owners to cash in on some of their stock, is the company's ability to have access to the public's invested cash for business operations and to pay off corporate debt with the new equity

money. That same year, Chuck Sims sold Remco for a then-unheard-of double-digit multiple of revenues to another rental dealer.

Those two transactions, both widely publicized, persuaded lenders and dealers alike that RTO businesses were worth more than had been previously thought—a lot more. This perception of added value in the industry attracted new money and changed the lending rules. For the first time to any significant degree, rental dealers were able to negotiate revolving notes based on a multiplier of revenues and other factors. Dealers with revolvers already were able to negotiate higher limits. As long as a dealer was within the loan limits there was no required, regular principal payback. Nor were there any precise controls on how a dealer used the borrowed money. Lenders could still audit rental companies but were no longer loaning money on trust receipts showing specific items of inventory that had been purchased. Instead, the dealer reported cash flows monthly and borrowed in relation to revenues.

The more a dealer could grow, the higher the loan limit. Part of the theory on both sides was to allow dealers to make acquisitions in the 10-to-12-times revenue range and to finance the purchase 100 percent. Typically, lending agreements allowed dealers to borrow up to eight or 10 times revenues for an acquisition, with the requirement that the loan be worked down over time to a lower multiple as the stores grew. To the extent that a company kept growing, there was plenty of cash flow to keep interest payments current and, in effect, grow the company up to the new debt level. Then, if companies can either go public at 18 to 20 times revenues like Rent-A-Center, or at least be sold to other operators for 10 to 12 times, a loan in the eight-to-nine-times range is safe and everyone will eventually grow rich.

That was the common thinking for several years after 1983, and lending policies reflected that thinking. It might have worked, too, had the industry, as a whole, continued to grow at 30 percent per year like it did during those heady days.

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If the revolving-loan strategy works during an era of healthy growth, it can lead to disaster during an economic downturn. If a store is at its loan limit on a revolver at, say, eight times with revenues of \$40,000 per month (a debt of \$320,000), that store is \$80,000 in the hole to the lender when revenues fall to \$30,000 per month. And revenues can fall that low or lower, literally, in a matter of weeks in the RTO business. Suddenly, the loan is over the limit and the dealer can no longer borrow funds. With no ability to borrow to continue buying merchandise, store inventories decline. There is no new merchandise on the floor and deliveries fall off. Without deliveries, revenues continue to decline and the store finds itself in a downward death spiral.

It is not a pretty sight and, unfortunately, has been played out in many, many companies all across the country. The result is lenders and borrowers involved in painful workouts which leave both sides frustrated, angry and unsatisfied. Some dealers have sought relief in bankruptcy courts, but only one company to my knowledge has ever come out of Chapter 11 and been able to continue running the business (that company had a loan from a life insurance company which agreed to convert substantial debt to equity as part of the debtor's plan of reorganization). More often, dealers have simply turned over the keys to the lenders in exchange for relief from some or all of their personal liability on the loans. Lenders have variously shunted these stores off onto other borrowers or have developed strategies for running the stores themselves while awaiting better times.

As might be predicted, this unpleasant turn of events has shrunk the RTO financial markets of late. Even those lenders still willing to play the game are revising the rules as fast as loans become due for renewal. Unprofitable dealers are going to have a hard time borrowing money at all. Even profitable dealers will likely see reduced debt multiples on revolving loans or a return to scheduled-payback term notes of some variety. Lenders, like dealers, are

in business to make a profit, and the prospects for expected returns in the RTO industry have eroded during the past several years.

In a sense, those dealers still around who have survived what we all hope have been the worst times for RTO are, indeed, going to have to pay for the sins of those who failed during those bad times. In the face of the considerable number of stores now owned or managed by lenders through repossessions, no new sources of money have been discovered recently as ready to rush in to fill up any slack that may exist in RTO financing. This is not to say that dealers are not looking for new sources. At the Atlanta financial summit, dealers heard of dealers actively courting relationships with local banks or chasing international financing — and sometimes both.

Nature abhors a vacuum and so do

financial markets. When the RTO industry re-establishes its viability, dealers will find money to grow at rates and on terms they can live with. Even today, there are rental companies with money and they are selectively growing through new stores or acquisitions — or both.

The RTO financing story has not been finally told and may never be. The industry has entered a new phase and the restrictive financing that has come with it is painful for dealers who had grown accustomed to the liberal lending policies of a few years ago. To some extent, the RTO financing story shares some parallels with this country's real-estate financing story, although happily on a scale less grand. We have not ruined an entire lending industry, nor are we going to. Nor have we seen stories of self-dealing and outright fraud that has enmeshed the savings and

Continued on page 43

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change their suggested solution. Once you have worked them around to a successful solution, give the go-ahead to complete the job. It will take time to do this, but next time the employee will know more of the things that you consider when reaching a decision. At some future point you will have confidence in the employee's decision-making ability and you can comfortably turn more of those decisions over to the employee.

Work to develop the decision-making abilities of your employees and you will work yourself out of having to complete upwardly delegated tasks. You will still be able to keep the feeling of being important to your employees because there will always be new employees and higher-level decisions that older employees will have to come to you for the required coaching. In the meantime, you will have received a time bonus since you can now use your time to complete your own work.

The solution to external demands on your time is, again, your daily "TO DO" list. Without it, any external demand has to be handled as it comes in because you have no legitimate reason for not doing it. That is what many advertisers and vendors count on. They expect to be able to call at any time and have you see them. This is based on past experience that proves that there are few managers who have their time organized to the extent that they will refuse to be interrupted by outside callers. You can set time aside to handle these calls. You may require advertisers to call on Tuesday or Wednesday of the third week of the month to set up the advertising for the second month following. If you do this, you should not see advertisers at any other time. If they want an appointment, set it for the time set aside for advertisers. You will know not to schedule other activities during those two days because the time is already committed to advertising.

The same approach can be used with other outside callers who have a somewhat regular schedule. Vendor reps may have a more flexible schedule so you cannot demand that they come

just on one day. What you can do is to keep a vendor file for questions, product orders and anything else you want to be discussed during the vendor visit. When the vendor rep shows up, pull out the file and go over everything in a logical order. It helps you spend the least amount of time for a very important result area.

I've known some managers who use receptionists or other employees to screen all their calls in an effort to become more productive in the use of their time. On the surface this appears to be a good tactic. In the long run, it can be very costly in terms of both time and money. It takes time from one of your employees to rigidly screen all incoming calls. Messages have to be taken, transferred (with the possibility of being misplaced) and later returned. While you can decide which call to return, you now have to pay for the call if it is long distance and may be missing some important information if you decide not to return a call. The other person will have to call again, only to go through the screening process again which takes time and expense on both ends.

One of your responsibilities as a manager is to remain informed. Absolute screening of calls in an effort to be a good time manager defeats another of your responsibilities. If you are in a meeting or working against a project deadline, have someone take the message. Have them take more information than the name of the person who called and a return number. Why did they call? What were they needing to discuss? Will you need files or other information when you return the call? Have your receptionist or other employees get as much information as possible. This will "save" you time on the return call because you can be ready to make the best use of the time required by the call.

Another part of the external demands for time are those that tend to be personal. These are dental appointments, traffic court, school problems, kid problems, tax-office demands, drivers-license renewals, etc. There are a

Continued on page 54

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their own attitudes and conduct on trial. They have found themselves portrayed as haughty and insensitive, kicking unfortunate debtors when they were down.

Lenders have come to court to present a straightforward business debtor/creditor relationship. Debtors have told a story of a different relationship developed over a long period of time. The creditor is shown as knowing the most about financial dealings, and the debtor has shown how he became dependent upon the lender's expertise over time. Debtors have told how they relied on their lenders' for advice in the debtors' business decisions, including whether to borrow and how much and when. When the debtors' businesses failed, debtors' have laid the failure at the feet of their most trusted confidants—their lenders—who now are called upon not only to forgive the defaulted loan, but also to compensate the debtors for their business losses. In such cases, juries have often decided that the lender should not have allowed the debtor to fail.

The message in those cases to lenders is that they must learn to be more cooperative and humble in depressed economic times. This is not the historic lesson that lenders have been taught internally. The parallel with RTO is easy to draw. When a new customer comes calling, the rental dealer and the lender both put party smiles on and best feet forward. They want to close the deal—a TV or new credit line—and are persistently cooperative and agreeable. There is a lot of flattery, compliance and an expressed desire to get along. Once the deal is made, however, the dealer and the lender both expect to get paid.

The courtship of getting the new business is over and now the debtor or rental customer is expected to live up to the terms of the bargain that was struck. The lender and the rental dealer may immediately get less agreeable and at least more businesslike. As the rental customer or debtor begins to get into trouble, the relationship begins to deteriorate further. There is some in-

stinctive suspicion on the part of the lender or rental dealer to begin with: "Now that he's got my TV or money, I need to watch closely to see that he doesn't run off without paying." Lenders are taught that the best collectors are the toughest collectors. Lenders to the rental industry have probably heard from their own dealers on how to get the money and to cut no slack.

Rental dealers, meanwhile, fear their business reputation in the neighborhood will suffer and that customers will take advantage of them if they do not collect aggressively. Dealers are going to tell lenders what successful collectors they are to induce the lender to make the loan. Lenders have learned the same lesson and have been collecting money much longer than rental dealers have been picking up televisions.

In court, those hard-arsed attitudes have played into the hands of creative debtor's lawyers who have shown those attitudes to jurors, along with tough-sounding memos and internal reports, as evidence of the lenders' arrogant and condescending attitudes.

This is not to say that lenders, just like rental dealers, cannot or should not be firm, yet fair, with their debtors when pursuing collection efforts. Lenders can seek to collect on debts without being overbearing—and will not be exposed when they do so. So can rental dealers. Lenders can collect their money or take whatever action the law allows and do it with an air of sympathy for the debtor's problems and without scorn. The more flexible the lender appears to have been during collection efforts, the less exposure before the jury.

As the lender-liability trend has been developed, certain fact patterns have recurred. A frequently asserted claim is the lender's failure to fund pursuant to a loan commitment. These suits may be on oral promises that lenders are alleged to have made. These cases turn on swearing matches, finally: "He said it." "No, I never said it." But courts have awarded large verdicts in a few of them. In an effort to stem the flow of

these kinds of cases, state legislatures are enacting statutes which state that only written loan agreements are enforceable.

Another common argument is that the lender has breached its own contract by failing to comply with the notice or other requirements in the loan documents before foreclosure. If the debtor can prove that the lender didn't comply with its own technical requirements, then the document will likely be ignored altogether, and the battle will be over personalities—the moral quicksand that lenders nightly fear.

Another legal theory involves the extent that a lender exercises control over the debtor's business. These cases have arisen when lenders, in an effort to preserve their collateral, have stepped into the debtor's corporate governing policies and, in effect, begun to run the company. Or, as plaintiffs have argued, "willfully, intentionally and without just cause interfered with the proper running of the company..." This is a variation on the common law tort of intentional interference with business relations.

There are two general legal theories that debtors use when going after lenders in these and other fact-patterns: contract and tort. As a general proposition, lenders are on more comfortable and safer ground under contract law than tort because there is usually a document or set of documents setting forth the relationship between the parties. Even under contract law, however, lenders must be careful to live up to the latter of their contractual obligations.

Under contract theories there are the usual issues of contract formation, interpretation and breach. There are issues concerning when and under what circumstances lenders need to give debtors various notices and opportunities to cure a default. Most often the written contract spells out the lender's obligations. Under certain state laws, lenders must give debtors three distinct notices—notice of the demand for payment with an opportunity to cure the default; notice of the intent to ac-

Continued on page 42

RTO'S SERIOUS SIDE

Anybody sitting within 10 feet of a rent-to-own dealer these days is apt to hear the familiar complaint: "Business sure is slow." Hogwash. Business is always slow when nobody takes care of the customer.

A quick analysis of population and income figures would suggest that less than 10 percent of potential RTO customers have products in their homes. Surely our advertising can't be that bad. But our stores and our people can be.

The real problem lies not in the competition, not in the advertising — not even in the sound bites on the *CBS Evening*

buy a used TV or dinette set nearly anywhere for a reasonable price. Or he can go to one of the "mega-chains" and find a clean, well-merchandised shop with hustling and eager employees.

Of course, having these quality salespeople allows the mega-dealer to rent more for less, so the other guy now has a new complaint: "We can't beat his prices." You can't even beat his sales clerk, dummy. Forget about his prices.

**BUD
HOLLADAY**

Back to basics — the customer must come first

News — but in the dirty and disorganized showrooms lately found under RTO signs. And in the heads of employees who haven't a clue what it is they're really supposed to be doing.

Any dealer wondering why BOR and revenues aren't growing at the desired pace has only to visit his stores or call anonymously on a Friday to find the answer: Nobody wants

to wait on the customer. Everybody's busy doing "paperwork." The customer comes last. Plain and simple.

Every marketing and advertising and operations manager out there will jump with denials. But when's the last time they went into a store?

This shopper lately visited dozens of RTO outlets and called others just to get a handle on what the competition is doing. In a nutshell, not much. Some stores don't even answer the phone



BY BUD HOLLADAY

until the fifth ring, while in others the manager (or salesperson) is perched behind a high counter in blue jeans and boots, munching chips and enjoying a soft drink. This ball of fire can't be disturbed.

The customer is left on his own to find what he wants, sell himself on it and — apparently — fill out the order and write his own receipt. Most sales consist of 'ole Bob asking: "Can I help you?" And service becomes a waiting game.

I suppose a lot of this attitude comes from the archaic days when there were more customers than we could handle and business consisted mainly of getting the deliveries made and taking care of collections. Those who haven't grown beyond this stage are being swallowed up, bought out, or pushed out.

The RTO customer does have a choice these days. He can

When RTO dealers pay as much attention to taking care of the customer as they do to beating down product cost and delinquencies, business will improve overnight.

That's not to say everybody needs a new marketing plan and complicated strategies for capturing and holding onto the paying customer. Nearly everybody has some of those already. Trouble is, too few people at store level understand them or even get paid to see that they happen. Meanwhile, field supervisors spend their time counting TV sets and matching up receipts to find out whether anybody stole anything today.

The real key to improving BOR, revenues and — consequently — profits is not to spend hours with the ad agency or pounding the computer. Spend one day in a store and see how many sales calls are missed; how many customers walk out empty-handed. Learn why three service calls got put off another day. Watch your profit walk out the front door.

See who picks up the trash in front of the store, who cleans the dirty washer on the sales floor. See how long it takes old Sam to get off his duff and slowly make his way out to the floor where customers are stacked up. (What's he doing sitting in his office, anyway, at 2 p.m. on Thursday?)

When carpets are dirty, lightbulbs are burned out, merchandise is more an accumulation than a display, and listless employees drag themselves around a cold, unfriendly store, the company has done more harm to itself than any *CBS News* story or legal eagle could ever attempt.

Whatever happened

Continued on page 45

The real key to improving BOR, revenues and — consequently — profits is not to spend hours with the ad agency or pounding the computer. Spend one day in a store and see how many sales calls are missed ...

celerate in the absence of any cure; notice that acceleration has occurred and foreclosure.

Added to contract theories are issues of waiver, estoppel and laches, by which one party can be held to have abandoned certain rights because of its conduct. One example is when a lender has accepted late payments for a period of time with complaint. Some courts have ruled that a lender may not thereafter hold a debtor in default because of a late payment without having "unequivocally notified the (debtor) that no further late payments will be accepted."

Upon default, and after all proper notices, contract law allows the lender to foreclose on the loan's collateral. Article nine of the Uniform Commercial Code and the security agreement between the parties govern foreclosure of personal property. The law states gen-

erally that foreclosure must be done in a commercially reasonable manner and in compliance with the contract between the parties. Failure to foreclose properly may extinguish the debt and, in some cases, allow a debtor to recover consequential damages. Wrongful foreclosure is really breach-of-contract theory in most cases.

Under general contract law, courts are split over whether to read an implied covenant of good faith and fair dealing into loan agreements. The Texas Supreme Court has recently ruled that there is no such covenant. On the other hand, The U.S. Sixth Circuit Court of Appeals in 1985 upheld a jury award of \$7.5 million against a bank based on a breach of an implied contractual obligation of good faith and fair dealing when the bank refused to advance funds on a line of credit, even though the note was payable on demand and could have been called at any time.

In addition to breach-of-contract claims, debtors raise a host of tort claims when suing lenders. In the first instance, juries can award punitive damages in intentional tort cases, whereas successful plaintiffs are only entitled to actual damages in breach-of-contract cases. Tort litigation allows the trial to review conduct far beyond the legal documents in the case and look at the overall behavior of the lender and the debtor.

Common law fraud is the archetype tort in lender liability cases and has five elements: (1) a material misrepresentation of an existing fact; (2) made with knowledge of its falsity; (3) with the intention that it be relied upon; (4) that the injured party did reasonably rely upon; and (5) was injured because of it.

Misstatements of opinion, conjecture or expectation cannot be the basis of fraud; nor is a statement concerning the future actionable absent a current fraudulent intent. A lender telling a debtor rental dealer that the loan limit would allow for "X" stores in the future would not be fraud when it proved later not to be true because it is, first of all, a statement of opinion — not fact; and, second, concerns the future. Oral

statements made during negotiations which do not appear in the loan documents generally do not give rise to fraud because courts have held that debtors have no reason to rely upon those statements. A party signing a contract is charged with having knowledge of its contents, unless he can prove he was tricked into signing the document.

Duress is another favorite tort theory of debtors in lender liability cases. The essence of duress is fear. The elements of duress are as follows: (1) threat made by a party with no legal right to do the thing threatened; (2) the threat actually induces another to enter into an arrangement without the exercise of free will; (3) the threat was intended to yield the result that it did. Mere hard times do not constitute duress. A rental dealer in financial difficulty cannot argue duress when the lender insists on a higher interest rate in order to renew a note. Generally, there can be no duress unless the threatening party has no right to take the threatened action. This may depend heavily on whether the threatening party has a duty of good faith to act in a certain way.

The existence of a good-faith obligation and its threatened breach come closer to duress than the same threat without the obligation. A banker threatening to sue on a personal guaranty — unless the corporate debtor renews a note in default at a higher rate — has more exposure to a duress argument if the state law imposes on it a duty to proceed against the collateral first and it has not done so, than if there is no such duty.

Intentional interference with business relations is another tort in a debtor lender-liability arsenal. Intentional interferences usually involves the malicious intermeddling in another's contract without legal justification or excuse.

Still other cases have argued that lenders were negligent in their dealings with the debtor. Negligence is defined as the failure to act as a reasonable and prudent person under the same or similar circumstances. To prove negligence, a plaintiff/debtor would have

Continued on page 44

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loans. What is similar has been the loan of tens of millions of dollars on assets that quickly became worth much less than anyone anticipated.

To the extent that the financing picture for the industry makes dealers feel at best insecure and at worst imperiled, what, if anything, can be done to make the situation better? That was the theme of APRO's RTO Financial Summit Conference in Atlanta. At the end of a day of probing that question, even the most skeptical of dealers left with a sense that there are indeed some opportunities in the midst of the current atmosphere of adversity.

Dealers have long bemoaned the narrowness of the financing base. Even during the best of times, there have really only been four finance companies actively soliciting loans in the industry. Dealing with lenders who understand the business and are accustomed to its quirks has been easy, and a path of less resistance when compared to educating a brand new lender — worth, all things considered, another point or two in interest. As relations with the industry's traditional lenders have cooled, some dealers will be forced to seek new sources of money — and they've already begun. The process won't be easy, but it will be good for the industry in the long run — just as competing electronics manufacturers and furniture makers have been.

Part of the job will have to be done by dealers united as an industry. For example, we as an industry are going to have to work to present a more flattering, yet accurate, picture of the business to prospective new lenders. Solid, industry-wide statistics are a part of that picture and APRO is committed to providing those. Part of meaningful statistics is standardized reporting, and the association is committed to that task as well. These two pieces will allow dealers to compare their companies with the industry as a whole when preparing loan packages.

APRO representatives will be attending the American Bankers Association annual meeting, as well as other lender get-togethers, to tell the rent-to-

**BELT-TIGHTENING IS NEVER FUN,
BUT IT CAN BE INSTRUCTIVE.
RENT-TO-OWN DEALERS LEARNED
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FINANCIAL SUMMIT THAT THEY
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THEIR ORGANIZATIONS.**

own story and to introduce new money sources to rent-to-own. Meanwhile, inside the industry, the association is working to establish a lender relations committee similar to the APRO Vendor Relations Committee. The various lender liability lawsuits that have been filed recently, however, have made it difficult to get representatives from the lending institutions to agree to discuss

lending issues in such a forum.

Finally, regardless of the association's efforts, the "industry" can only do so much. Lenders, after all, do not loan money to industries; they loan money to people and to companies. The people who are committed to prospering in this business and their companies will surely clear the current financing hurdle much as they have handled other thorny problems in the past — image problems, legal problems, supply problems and the like.

Belt-tightening is never fun, but it can be instructive. Rent-to-own dealers learned at the APRO-sponsored financial summit that they need to reinstall discipline in their organizations. That's a good lesson for us all. When we do it, we'll find enough money to carry on our business. **PR**

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

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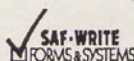
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to prove: (1) that the lender had a duty to act in a certain manner; (2) that the lender failed to act in a reasonable and prudent manner and, therefore, breached the duty; and (3) that the debtor's injuries were proximately caused by the breach and for damages.

There is no magic to the names given the different torts. As new theories are developed, new names arise. The essence of an actionable intentional tort is as follows: (1) an intentional, though not necessarily malicious, act by the defendant; (2) an intention to cause injury to the plaintiff; (3) actual, measurable injury; (4) no or an insufficient justification for the action.

Defendants, including lenders, are able to act in their own economic interest without such conduct necessarily constituting a tort.

Under tort theory, a successful plaintiff must prove that the defendant's conduct proximately caused his alleged injury. A rental dealer already losing money hand over fist in the business may be hard pressed to prove causation in a case where the lender wrongfully forecloses on a business that is already brain-dead.

Finally, a debtor must prove damages with specificity. Despite the upsurge of lender-liability suits in the courts, there is another legal trend afoot in both legislatures and courts around the country. There is some concern that the nation's financial institutions, at nearly every level, have become imperiled and that lender liability — if allowed to progress to its natural end — could literally bankrupt the country. Accordingly, legislatures and courts alike are at work to preserve the integrity of America's financial institutions. Oral lending agreements already are unenforceable in several states. Debtors who now owe money to the Federal Deposit Insurance Corporation or the Resolution Trust Corporation, or any other federal government entity dealing with the financial institutions'

LENDING-LIABILITY LEGAL THEORIES HAVE FOUND A NICHE IN THE LAW AND ARE NOT LIKELY TO GO AWAY — OR EVEN DECREASE SIGNIFICANTLY IN THE NEAR FUTURE. IN THE RENTAL INDUSTRY, THE PRESENT WILL LIKELY CONTROL THE FUTURE. IF THESE FIRST DEALERS ARE SUCCESSFUL IN THEIR LAWSUITS, WE WILL SEE OTHER DEALERS JOIN IN THE FRAY.

bailout, are denied many of the claims they could have raised against private lending institutions on the ground of sovereign immunity.

How this trend will evolve remains to be seen. Whether it will expand to cover commercial finance companies or, lately, insurance companies is also the subject of conjecture. What is known is that financial institutions have fallen off of the pedestal of universal respect and admiration. They are now fair game for disgruntled debtors, and there exists a judicial system willing to listen. The government — in various guises — has taken some steps to limit the onslaught of suits and will continue to do so.

Despite such curbs, lending-liability legal theories have found a niche in the law and are not likely to go away — or even decrease significantly in the near future. In the rental industry, the present will likely control the future. If these first dealers are successful in their lawsuits, we will see other dealers join the fray. Until the matters are resolved, and both sides can re-establish a calm and cooperative environment in which to do business with reasonable advantage to both sides, financing RTO — from any point of view — isn't going to get any easier. PR

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

have been filed in the industry. That is a subject upon which I am still ruminating, since I have very few facts, yet.)

Also in November, I served as an arbitrator with a serious and complicated franchisor/franchisee dispute wholly unrelated to RTO. I learned that arbitration can be an effective — i.e. relatively quick, inexpensive and efficient — mechanism for settling disputes. Of specific interest to RTO dealers, I learned of the existence of companies like Equifax Marketing, National Decision Systems, and other marketing-information firms which for a pittance will tell you extraordinarily detailed information about the demographics of your store location or proposed location. Many readers will already have access to and use this information. But for those of you who do not, here is cheap information that will make you a more informed and potentially more profitable rental dealer. Within a tight radius of your store, you can find out how old people are, how much money they make, their sex, housing details, ethnic breakdowns, marital status, property values, number of school children per household, education level, job classification, number of cars per household, travel time to work, and the list goes on and on. I want to get a full-blown article in the magazine soon explaining who these companies are and how they work. In the meantime, know that retailers have been using these companies for years. So have some of your RTO competitors. Call APRO if you want some names and addresses.

On a personal note, it's the holiday season as I write and I want to wish for all of our readers a safe and prosperous holiday season. I have two-year-old twin boys, now, eager to hurl ornaments about the house. I would wish for all of you equivalent joy at this festive time of the year. PR

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tions" or advertising allowances. Many even have the cash terms netted out.

"Let's face it: In this day and age, who can afford to pay more than their competition?" Blair asks.

Mary Hughes, administrator for TRIB, has been Blair's right hand — figuratively, at least — for almost four years. "Our members love her because she doesn't procrastinate with their requests," Blair said. "She is honest and direct with her answers."

Blair spends much of his time "negotiating and researching to find out what is the lowest price and best warranty,"

he explains. "Most of the information is obtained from TRIB members. The cooperation I receive is rewarding. With this data I'm

able to negotiate better programs which are normally written for six months or longer."

Vendors are screened for "approved" status and once a manufacturer or distributor is cleared, Blair keeps its representative "informed of any changes within the group."

"We want long-term working relationships with our vendors," Blair continued. "Some vendors don't understand this; they are looking for immediate rewards. But we have one or two vendors, in particular, who have supported TRIB for three years. In the beginning, we were buying around \$300,000 (annually) from them. This year, we will purchase around \$4 million."

Blair says pricing is important, but service, warranty and availability are also key factors.

TRIB is a non-profit organization with its own member-elected board of directors. Lowry Shrader, chairman of the board for the past six years, believes TRIB's board is a representative cross

section of its members. "Each member, regardless of size, has an equal voice in its direction," he said.

Besides giving members volume buying power for their products, TRIB also provides various forums in which members share information and ideas. Annual buying conventions and special TRIB "Meeting of the Minds" are good examples. At the last TRIB convention, 16 members were honored with five-year membership awards, bringing the group's total number of five-year members to 25, according to Blair.

TRIB is a strong supporter of state



TRIB members visit during last fall's 'Meeting of the Minds.'

rental associations, and especially rental trade associations such as APRO, Blair emphasized.

"With the direction of president Ted Wilson (a TRIB member), the executive director, Bill Keese, and staff have done a tremendous job at APRO," said Blair. "Their Orlando convention was well attended and successful. The seminars I have attended over this past year were upbeat and well organized. We look forward to their 1991 convention in Las Vegas (Aug. 11-15 at Caesars Palace)."

An important part of the rent-to-own community, TRIB and its leaders are always looking for ways to expand and better serve RTO dealers.

"As in all opportunities, the ability to take advantage does not last forever," Blair said. "There are still many areas of the country where TRIB is seeking new members. Most major markets are rapidly reaching saturation and many will be closed to new members in the near future."

Still, with all it has to offer, TRIB stands as The Rental Industry Buying Group and Blair is confident it will "remain a major factor in the rental industry for years to come." PR

to drive, hustle and plain, old-fashioned customer service? And when did lowest price ever convince a customer to take dirty, outdated goods away from a lazy, disinterested salesman?

Instead of PR campaigns and huge legal funds, maybe what the

BUD HOLLADAY

RTO industry needs is somebody's Aunt Ethel to go in and slap sense into the head of the guy behind the counter (or the executive behind the desk).

It's a fool's argument that because a consumer has faulty credit he'll accept bad service, shabby stores and careless employees. And when any rent-to-own dealer fools himself that these don't exist just because he says they don't — because company policies don't allow it — then this industry takes another step backward.

Like most problems in business, most of ours are of our own making. Some are not, of course. But those affect nearly every other type of enterprise in the world today, as well. What makes us so special?

No law says we have to give the customer a good-looking store staffed with sharp people who know what they're doing and like to do it. But there are plenty of laws to take care of what too often happens when we don't.

Wake up, Mr. and Ms. Rent-to-Own. Your problem isn't Dan Rather or Rentacenter or Ace TV Rental. Your problem is sitting behind the counter at store No. 3. Skip this weekend's golf game and check it out. PR

Bud Holladay is vice president of employee development for Alrenco and a former rent-to-own dealer who is generally credited as APRO's founder.

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Devlin's daily noon regimen?

Basketball

What has been the one constant in Thomas R. Devlin's life — from the early days of Rent-A-Center right up until today?

Besides his wife, Myra, the answer might surprise you.

Basketball.

Devlin is fanatical in his love for the game. Not just as a spectator. As a player. A good one.

I know because I played in a three-game series with him last October in his private gym. Fortunately, for me, I was on his team. We beat our two-on-two opponents — a talented former college player and a wiry, quick accountant — the first two games and lost the third game by a slim margin.

Devlin talks about getting older (he's in his early 40s) and no longer being able to compete with younger guys on the court. He shouldn't worry so much. He's got an extremely accurate jump shot from 3-point range — and he can drive the lane, too, with his running hook. On defense, he's unremitting — a reflection of his robust approach to business.

Kathy Dieker, Devlin's assistant, says he used daily basketball games as a stress reliever during the time he ran the point for Rent-A-Center. It's a noon-time habit that's stayed with him. Dieker schedules daily partners and opponents for Devlin, including friends, business associates and ex-college and -pro players.

When Rent-A-Center's new corporate headquarters were built in the mid-1980s, Devlin made sure they included a full-court basketball and exercise facilities for employees. Since then he has formed his own investments company, Devlin Enterprises, and the building Devlin shares with Bob Geist and Frank Barton has its own down-sized gym/racquetball court and exercise/weight room.

"I've still got some (college) eligibility left," Devlin says while taking warmup shots. "We were thinking I could come off the bench and be their (Wichita State Shockers') secret weapon," he adds half-jokingly, "but I'd be afraid I'd embarrass myself."

I doubt if Tom Devlin knows what that feels like. Some of his opponents through the years — both on and off the court — undoubtedly do.

— John Gormley

Photo by John Gormley



Devlin Enterprises is located in this building, which also houses a basketball court, where Tom Devlin plays at noon every day he's in the office.

There's also the difference in my philosophy, too. Everybody in the rental business underpaid everybody. They wanted to pay the people \$25,000 a year and they couldn't understand why they quit two years later. My whole deal was I was going to pay out a third of the profits to the store's manager. So he made more money than he could make anywhere else and, thus, he'd stay with me. When we got to 10 stores I really was going to be in a position where each one of those store managers was my partner (of that store). He was a minority shareholder but that way he'd just stay forever because he'd make more money than he could anywhere else. Well, then as we got to 10 stores I realized that we couldn't give a piece of the store to each one of those guys and grow any further. Yet the pay system was set up so they got a salary plus 10 percent of the profits.

PROGRESSIVE RENTALS: In essence, profit sharing.

DEVLIN: Yeah. And we did that for years. Even the pay system there today includes that. Then after that I said, "Well, these guys are going to get bored and you've gotta have something." You've always got to have something coming on board to keep good people with you. So, we then came up with the year-end goals. That said: "Okay, if we say this store is going to make \$60,000 for the year then what we'll do is we'll give them 25 percent when they beat that goal, as an incentive." In essence, what I convinced the store manager of was this: I said, "Look, you get a salary; you get 10 percent of the profits of the store; plus, you get 25 percent of everything over the budget. So conceivably you could be getting 35 percent of the profit of the store." And we had store managers that made as much as \$70,000 to \$80,000 a year. We had one store manager one year make 90-some-thousand bucks.

PROGRESSIVE RENTALS: That's one way to reverse the trend of employee turnover.

DEVLIN: Absolutely. And for years and years we didn't lose many people. That was another thing in the rental business: In the early stages, because there was no way to find anybody good, dealers were always robbing each other's good people. Well, I wanted to be in a position where people couldn't come in and steal my people. I also believe in letting the guy run the store. My philosophy is hire good people and let them have it. If you've got to go in there and do it for them you might as well replace them. Don't have reins so tight on people. Everybody has some entrepreneurial spirit. All of us would like to own our own business. Now a lot of us won't go do it because we don't want to take the risk; 'cause we're kinda security-oriented. On the other hand, there is a piece of that — that we all like to run our own show. If you can teach a guy how to run a business to where he's totally responsible for the profit and loss, and he gets a nice piece of it

in his pocket, he doesn't need to go into business or go with somebody else because he's got his own deal.

PROGRESSIVE RENTALS: What was it like when — still in your mid-20s — you decided to strike out on your own? Were family members supportive — or did they think you were crazy? Was there anxiety?

DEVLIN: I'll tell you two little stories. First of all my wife and I both came from families that never had anything. And my father died when I was 10. I had saved about \$15,000 from the time I got out of school to the time my wife and I decided to start Rent-A-Center. And that's over a three-year period with Mr. T's. I was scratching and saving every dime I had. I'll never forget sitting in Atlanta, Ga., working for Ernie and the stores were all screwed up. I was trying to turn them around and he wanted me to come on back to Wichita. And I just said: "Why come back to Wichita? We haven't solved the problem. That's part of your problem, Ernie, is that you never really clean things up totally. You kind of do the surface work on it then it just comes right back a month or two months later." And it (the reply) was: "No, I want you to come back."

And so my wife and I were driving back to Wichita from Atlanta, because we had moved there from Wichita temporarily to solve the store problems he had. I just couldn't do it on the plane, going on Tuesday and coming back on Friday. I needed to live right there and absolutely solve it. So, on our way back I explained to Myra: "You know, Myra, it's hard when you don't agree with management. What do you think about us just going and starting our own business? We've got no problems. I've saved \$15,000. I think I can get us the money from a bank to start one store." And I'll never forget what she said: "Let's do it. Where do you want to do it?" "Well, let's go to Kansas City." And so we started talking about cities and where we ought to go to start our first store. So I got back to Wichita and just told Ernie I resign. That's it, I'm gone.

But then I got turned down by four or five banks. And, you know, when you're young like that you don't realize how hard it's going to be to get financing or whatever you want to do. I didn't even think about what if it takes a month or two to get the business all set up. What are you going to live on? All of a sudden I woke up about two-and-a-half months later and my \$15,000 dollars was down to \$11,000. And, finally, I went to try to get suppliers to help me get financing after the banks started turning me down. Frank Barton in Wichita said: "Hey, look, I'll go in with you. I'll put in the equal amount of money as you and I'll put up the credit line to be your partner. You can run the whole deal — it's yours, and you'll never see me. And as long as you're making money, I'll be happy." And, really, what I ended up gaining from Frank was almost more from a personal sense than a busi-

ness sense because he was like a father to me. So I said: "Well, that sounds good." But, now I'm down to \$11,000. Well, I couldn't tell him I didn't have my \$15,000.

PROGRESSIVE RENTALS: What did you end up doing?

DEVLIN: My mom was a semi-invalid and all she had in the world was the house that she inherited from my dad when he died. And, you know, there were five of us kids. We'd struggled all of our lives with nothing. And, I'm gonna tell you how tough it was. When I was a kid there were never seconds and you got one glass of milk with meals. And if you were thirsty and you wanted a second glass it didn't matter 'cause my mom had it all planned out how she had just enough milk. I remember my poor brother Ralph, who also ended up in the rental business, used to get his butt chewed by my mom for drinking milk in between meals and then she'd get to the next meal and not have enough milk. I mean, we grew up very tough.

But I'll never forget going to her and saying: "Mom, I finally got a guy who's gonna put up the money — but I'm \$4,000 short. I've never borrowed from you. I wouldn't want to, you know ..." She said: "What do you want to do?" I said: "Well, what I really need to do is go to a bank and borrow \$4,000." And she suggested we go to the bank that she had done business with for 30 years, you know, and my dad had known the banker. He turned me down because I didn't have any collateral, and that's when my mom said: "Wait a minute. What about my house?" And the guy was right. He said: "Well, Mrs. Devlin, you know that's all you've got in the world. Your house is certainly worth borrowing \$4,000 on but you have to understand that if he doesn't pay it, we're gonna repossess your house. And I just don't think it's smart for a widow, at your age, to take the risk of losing her house."

Really, if you think about it, it was not very smart on her part. And so he said: "I just don't think I'd loan you money." So she stood up, looks at him square in the eyes — I'll never forget — she says: "Well, sir, you have to understand nobody in our family's ever been successful. My son has the one chance and if he makes it then all the rest of the kids in our family may have a chance. But, if I don't give him this chance, we're gonna be where we've been all of our lives and nobody will ever have a chance. And I'm gonna take that chance. If you won't loan me the money, I'll go to another bank. But I'll find somebody who will loan me the money on that house."

So, he went ahead and said okay. That was a real gutsy move. People say I'm an entrepreneur, but I think my mother was the real gutsy entrepreneur. Anyway, I got my \$15,000, the partnership was born, and we went to Kansas City (Mo.), started the first store and within two years we'd made enough money to pay off the loan.

PROGRESSIVE RENTALS: Just two years?

DEVLIN: *Two years. It took us two years to pay it back. And she died — well, I guess it was about two-and-a-half years later — she died about the same time I paid off the house. So she lived long enough to see that the business was successful and over the hump and that her loan got paid back.*

PROGRESSIVE RENTALS: That's an incredible story. You took the first risk, by leaving your job with Ernie Talley, which your wife fully supported. Then, Frank Barton placed a lot of faith in you by stepping in as your partner. And finally your mother took the next major risk ...

DEVLIN: *I would say between my wife's loyalty to jump in and not even blink an eye; and then my mom, willing to risk everything she had, I had pretty good support behind me. Of course, it was funny. Right after we got in business — we opened in mid-July of 1973 — we found out in September that Myra was pregnant. You know, our deal was, she would get a job and be able to work since I could only draw \$1,000 — I mean I was drawing less than 50 percent of the salary I was making with Mr. T's.*

I took one hell of a pay cut to start this deal. We rented a small little apartment. And all of these other guys I see trying to go into business — they want to own a Cadillac and they want to still own their house. I don't see anybody today willing to really boot strap it. We gave up everything. I mean, we rented a U-Haul and Myra and I moved our furniture to Kansas City and rented an apartment. I remember refinancing my car to lower the payments because my new salary wasn't gonna allow me to make the payments I was making. And I had an antique car that I had to sell because we were out of money.

So it was funny in September when we found out she was pregnant. If I had waited two or three months (to start the business), and all of a sudden had the responsibility of my wife being pregnant, I'm not sure that I would have made the same decision. It was an easy decision to make when it's just you and your wife and she can work and you can work, and whatever it takes you know you can make it happen. But now, all of a sudden, you know you've got a baby on the way and your wife can't work. It's a totally different position.

PROGRESSIVE RENTALS: It's probably a good thing we can't see how tough things are going to be.

DEVLIN: *Oh, that's right. Absolutely, absolutely. But, you know, with the company and the 14 years that I ran the company — 14-and-a-half — we never missed numbers. That first year we were within \$1,500 of the numbers projected.*

PROGRESSIVE RENTALS: That was in '73?

DEVLIN: *Uh-huh. The second year we exceeded*

them and we exceeded them every year after that. There were times when we were public that we missed a few months' numbers, but we never missed a quarter and actually never missed a year. Basically, we exceeded the numbers in every year we ever projected.

PROGRESSIVE RENTALS: With all the pressure and so much riding on the business' success, the first year had to have been the toughest.

DEVLIN: *It was the tough one. Because, understand, there was no way of knowing whether we could attract both markets or not. I wasn't avoiding the black market, but I wanted to be both. And nobody was in the white market. We located our store in a white area. Everybody else had always been in black areas.*

PROGRESSIVE RENTALS: Your gambles paid off, though.

DEVLIN: *You know, it was quite a gamble. I only took a two-year lease because if it didn't work I was just going to move the store to a black area and just be like everybody else — survive. I mean, I couldn't let my mom's house go down the drain. I knew if it didn't work, six months into it I'd just move right on down the street to a black area and make it work. I knew that Kansas City could support another rental store, so I was going to survive. It was just a question of whether my white-market move would work or not. And it did. But what I found was that black-market people react much quicker; rent their sets quick. The white market is slower. So, the first couple of months were a lot tougher.*

PROGRESSIVE RENTALS: Does that make advertising inherently more important for an upscale type of operation?

DEVLIN: *Sure it does. And there was no proven fact on how to advertise to that market, since nobody had tried to reach it. And, what did the message need to be? It's obvious the message probably isn't going to be the same message you give to a black community. I wrote the initial commercials, and it was fun in those early years because everything was all brand new. We had to develop everything from the rental agreements — because I used a totally different rental agreement from everybody else. The advertising was different; locations were different; pricing was different. It was fun because we were exploring new territories where nobody else had ever been.*

PROGRESSIVE RENTALS: Of course, you had the experience as the advertising director for Mr. T's.

DEVLIN: *It did pay off because we were the first to advertise (competitive) price on name-brand merchandise. Why didn't anyone ever talk about price? Well, because they were so damn high. And back in the old rental days they had off-*

brand merchandise and their prices were higher than hell. Well here we were, going to offer name-brand merchandise for \$2 a week less than our competition. I wanted to advertise that fact. I remember everybody in the rental business calling and saying: "Why are you doing that? Don't do that." Well, obviously, if you've got the best price in town you want people to know that. And if I didn't advertise the price you would assume that my price was the same as everybody else's. And, I knew that probably everybody in the rental business had some really good business on the books. They (customers) probably felt like they were paying too much and if they saw my price I'd steal 'em. Which absolutely worked.

PROGRESSIVE RENTALS: At what point did the company begin to make the kind of gains that made it apparent it would become the biggest chain of RTO stores?

DEVLIN: In 1978 we had 10 stores. At that point Remco probably had, I'm gonna guess, 25 or 30 stores. Umm ... and I'm gonna say ColorTyme probably had that many stores. Okay? In 1982 we still only had about 30 stores. And Remco at that point probably had 80 stores. You see, our policy was never to open another store until my last store was making money. We opened stores in the fall; we opened stores in the spring. We didn't open them in between. And, if the last set of openings whether it be two stores or five stores, weren't doing well — and of course all of my people knew the incentive to get to open more stores was to make sure these work; because if we make mistakes out of 'em, if we don't work them right — we're not going to go open three more stores. We're going to stop, solve the problems we've got, and then we're going to open stores.

Of course, all the promotions and better positions only become available if we grow. If we don't grow, well, they're not available. So, the incentive not only was there to make money but to continue to grow the company.

PROGRESSIVE RENTALS: What was the biggest catalyst to Rent-A-Center's growth?

DEVLIN: A major decision the company made in 1983. We were in the process of working on taking the company public. Plus, as you know, money has always been a problem in the rental business because banks don't like to loan us money. So I wanted to take the company public in 1983 to give us basically unlimited funds to be able to grow with. Because, at that point we were up to about \$7 (million) or \$8 million dollars in debt and it's really hard to get money beyond that in the rental business. Even though we were hitting the numbers, that was a lot of money to be asking the banks, at that time, to loan us.

In about May of 1983 we started working on taking us public. I went to New York and met with some people. In the process Jet TV Rental, which was out of Kansas City, had 20 stores and

we had 30. They came to me and said they might be interested in selling their stores. So I drove up to Kansas City to look at them and, to make a long story short, we bought them while we were in the process of trying to take the company public. We had to go back and restate all of our numbers. But it was the smartest thing we ever did because we picked up — out of the 22 stores — we picked up something like seven or eight brand-new markets we weren't even in. We picked up Nashville; we picked up Cincinnati; Dallas; Denver ... Anyway, we ended up picking up some really good markets out of that deal.

I had to go to Chicago to borrow money because it was a \$5 million acquisition — something like that. Which at that point was a big, big deal. We almost doubled the debt of the company to do it. So, it was really taking a dramatic risk. It was kinda like the going-into-business decision. That deal was either gonna get us really over the hump or it could have buried us — either way. And so we did that deal in '83 and we worked through it and it worked out super.

We also became public. That's what really made us. Because even in '83 when we got to 50-something stores ... I don't remember what Remco had but they were about twice the size we were and probably ColorTyme at that point had more stores than they did. Now understand that with ColorTyme ... they're mostly franchise stores; not company-owned stores.

PROGRESSIVE RENTALS: It looks like 1983 was the pivotal year for Rent-A-Center. How did the Jet acquisition, combined with the infusion of capital from the public offering, affect the way the company was run?

DEVLIN: It was funny; all the way from '73 to '83 when we took it public our restraint was never people. It was money. And so probably the reason we never got into any growth problems at all was because we never could put on enough stores to create problems. We always had more management people because that was one of my better skills. I always had more management people ready than I had money for the stores. But, all of a sudden I woke up one day in 1983, in the fall of '83, and now we've got \$15 million to go out and put on stores. And the ability to raise money whenever we needed it.

Overnight, it went from money as a restraint to people as a restraint. I never would have believed that would've happened because up to that point there was never a problem with people. Also, at about 50 stores, that really is when you need to departmentalize. Because prior to that, you know, I could do the advertising; I could meet with the factories and do all of the buying. I had several zone managers who handled the stores as far as the operations goes. I had a CFO (chief financial officer) that handled the accounting. And that was basically it.

From that growth on I had to take myself out of it and we needed a marketing director; an operations director that all of the operations

people report to. And, all of a sudden, we needed a VP of purchasing and at some point that ended up being a guy that handled strictly the electronics; another strictly the furniture. Now, during all of this time, I also was developing all the products. Because when I got into the rental business everybody just had TVs and stereos and that was it. We were the first to go into portable stereos. Everybody said, "You're crazy; they're gonna rip 'em all off."

What most people in the rental business didn't do is look out far enough in the retail side to see what's really moving and figure a way to bring that into the rental business. What the rental business normally did was buy all their stuff from the suppliers when it wasn't selling in the retail stores anymore. For instance, eight-track stereos were still being rented in the rental business when the retail business was cassettes.

PROGRESSIVE RENTALS: Retailers' leftovers.

DEVLIN: See how it's changed? So, we were also the first to go to appliances. Well, when I went to go to appliances, everybody said, "You're crazy. What are you going to do with the damn appliance when it comes back?" Well, two things. One is, what they didn't understand, was that this was a necessity item. You can send a TV set back and do without TV. But what are you going to do without a washer and dryer or refrigerator? You gonna take all of the food out and set it on the table? I mean, it's a different ballgame. So I started to experiment.

One of the things I love most about Rent-A-Center is we were probably the most innovative product developers in pricing and how to make this work than anybody in the industry. We were the first ones to do the furniture-rental business. And I remember, Chuck looked at it and said: "Well, it requires too much storage space."

Creating opportunities because something is difficult to do. No question — getting with furniture companies (was difficult), because with a TV deal you can call them today and they'll ship today and it's in your store in five days. Well, when we went to go check out furniture we found out if you order today, it's ready in seven weeks. How are you going to control inventories in stores when you've got seven weeks you've gotta manage? Well, you can't buy enough merchandise to set in the stores and have a whole two months' supply of it. And now you're paying for it and with no interest.

Solving those problems was tough. But, on the other hand, you know, that's what creates opportunity. Nothing is easy. And if I was ever going to go look for a new concept to do today, I mean I'd be looking for an area that isn't being satisfied because it is difficult. Anyway, when we started the rental business the average revenue was only about \$20,000 a month. By adding all of the new different product lines we've created the average revenue of our stores at \$70,000. So it changed it dramatically.

PROGRESSIVE RENTALS: Speaking of new product lines for RTO — what happened with jewelry and computers?

DEVLIN: Ah, well, the computer — we never did do it in Rent-A-Center. We bought into First National Computer Company down in Dallas and, quite frankly, the management just wasn't qualified to handle the deal. We ended up in battles with them because they thought they knew more about the (rental) business than we did, and they wouldn't listen to any of our expertise. So we ended up just letting them buy us out and we got out of it. I never felt it would fit in a Rent-A-Center store. I also don't agree that jewelry fits in a Rent-A-Center store. I think it fits in a separate store. In fact, I have two stores here in Wichita where I do it myself and it works. You've got to have a lot of product. People looking for wedding rings — they want to see hundreds of 'em, not 10. So I think that it would do real well with somebody like Rent-A-Center (if it's) owned as a separate deal and run (separately). I also think that rental jewelers could be the rental company of the future.

PROGRESSIVE RENTALS: Is that basically what Devlin Enterprises is — an umbrella for different companies?

DEVLIN: Well, yeah. Devlin Enterprises is a company that owns probably 50 or 60 different companies. Everything from retail stores to manufacturing to wholesale. We own part of (several) automobile dealerships. But, we don't have a personal strategy of we want to own 'X' many businesses or we want to grow at a certain rate anymore. But I do have an outside board with my own personal company because, once again, I really believe you need outside people asking the right questions: "Why are you doing this?" And: "Why aren't we doing this?" Because no one is smart enough to know all those things.

I still have the philosophy that nothing's good without good management. Too many people lose money in investments because they pay a lot of attention to the concept but they don't look at management. No matter how great something is, if it's not executed right it isn't going to work. I pay more attention to management. If the management can really, really do it then I'll do the deal because I don't want to ever have to go back and run a business. I spent my 14 years in which I worked probably 80 hours a week. I was on the road a lot, and my last year at Rent-A-Center I was on the road 41 weeks out of 52. That's a lot of time to be on the road. And I won't ever do that again. Again, my sons never saw me, they grew up without a dad and my poor wife had to run everything herself. She had all of the pressure on her and, fortunately, she was a good wife and she handled it. But I think she woke up wondering whether she really had a husband or not. And whether Rent-A-Center was more important than her and the kids.

Since selling the company, my deal is I work

Mondays and Fridays — and that's it. I don't come in on Tuesday, Wednesday and Thursday, unless I just happen to be passing by and want to stop. Like tomorrow I'm gonna go ... hunting a little bit and Wednesday I'm going to go out to another place with my wife. I mean I spend three days a week out in the country, basically, hunting and fishing. Or, I may fish a little bit in the morning and go play golf in the afternoon, which is probably what I'm going to do Thursday.

I had a goal in mind with Rent-A-Center — so many stores. But I don't really have a goal in mind of creating, you know, 10 times as much as I have today. What my real goal is is to maintain quality time with my family and not get my investments to a point where I've got to spend tremendous time in it. What I've really found is that if you buy into a company that's doing well and has a young Tom Devlin that needs money to grow, that's what you are looking for. So, I spend just enough time to help grow the guy and let him see what he's going to be faced with.

PROGRESSIVE RENTALS: You've brought up an important part of your story: What do you do now, after building the Rent-A-Center empire. Do you still keep in touch with people in the rent-to-own business. Do you follow industry events?

DEVLIN: Well, my philosophy is, you know, that there was high school with friends and neighbors; then you went on to college and that was a part of your life; and then you went on to start your business life and that become a new part. And if you shift from one industry to another — to me, quite frankly, the rental business and being a big part of it was fun and it was great, but that was a part of my life that's over. I've got a new life. And I don't go back and, truthfully, I don't work at it anymore. I haven't been to an APRO meeting since I left; since we sold the company (in 1987). Oh, I read the APRO magazine (Progressive Rentals) that comes out; I look at it. And every once in a while Rent-A-Center will ask me to come over because I am still on their board and associate with them. But, it's really history. It's kind of over and that's really the way I want it. When Dave Egan wanted me to come down to the APRO deal (1990 annual convention in Orlando) in July when you guys were doing something, well, to me that part's over. It was great. I had fun.

But I'm on to what I like doing now. We own part of four major car dealerships. And we have everything from Mercedes and Lexus and Porsche and Audi and Volkswagen and Jaguar; we've got Pontiac, we have GMC, we've got a Chevrolet dealership. And those are a lot of fun for me. It's kind of a neat deal; there's four partners in one deal. We're all 43, we all went to Wichita State and we all love to play golf. And that's kind of a good deal. And then the other partnership is three of us that love to hunt, fish and play golf. And the car agencies have been in business for years and years; they are very successful. I make a nice return on my money

and drive a couple of nice demos. I have a Lexus and a Mercedes and a GMC truck and it's kind of fun, you know.

Now I'm doing investments because they're fun. I mean, obviously, I want a nice return. But, I really am with good management on the deals. I like to play golf and fish and hunt, and I love to do that with my sons and my wife. And so three days a week is just strictly family oriented. On weekends I don't even do trips. If I gotta go do a business deal I'm gonna do it during the week because I'm gonna be home on the weekend.

PROGRESSIVE RENTALS: I understand you were the golf coach of your sons' high school?

DEVLIN: Actually, middle school. I coached both of my sons' classes. Coming back to philosophies: I didn't want my kids going to Wichita schools or private schools and being around a bunch of rich kids who may think they were just hot stuff. I really like the fact that, you know, Augusta is a very poor school district. Good, hardworking kids; a lot of them are farm kids and whatever. And I wanted my kids to grow up realizing that's what life's all about. One of the reasons why I was successful and my brothers were is because we grew up without. If you wanted something you had to go out there and make it. I now can understand about families that have money — it's very hard to grow your children and for them to be as aggressive as you were, because everything is already right there.

Anyway, that school district did not have the money to hire a golf coach. And so my kids kind of wanted to have a golf team with some of their friends. They and their friends talked me into coaching, and it was really fun. I did it for three years and I'm probably going to do it again this year since now they're in high school and they don't have a freshman team. They've asked me if I can come coach that. I think I probably will.

And that's really rewarding. It's really fun to watch people. It's very similar to Rent-A-Center. You know you hire all these young guys at Rent-A-Center who don't have anything. Five years later they have nice homes and nice cars and they're making some money. One of my greatest things to come out of Rent-A-Center was, I think, when we ended up with 27 or 30 guys who became millionaires.

PROGRESSIVE RENTALS: When the company was sold to Thorn?

DEVLIN: Well, yeah. Plus we probably had another 30 guys who were worth half-a-million bucks. I mean, that is a hell of a reward for them but more so for me when I think of all those people who helped me get where I was. I also helped them get somewhere, and that was a neat deal. Well, it's that kind of thing with the golf (coaching). You start out the season and you've got all these guys who can't do anything; I'll never forget the first tournament — we just did horrible. By the end of the year we won the last

two tournaments we played in, and that's really fun.

PROGRESSIVE RENTALS: That's got to be a feeling of accomplishment.

DEVLIN: *Oh, it really is. And the other thing is all your life you have to do everything else as good as everybody else is doing. Well, for the first time if I don't want to do it, the hell with it; I ain't gonna do it.*

PROGRESSIVE RENTALS: So when you started taking steps to sell the company, how big a part did personal reasons play?

DEVLIN: *Oh, I could tell you exactly what happened. I was in Canada fishing with my son, my oldest son, and he had been struggling a little bit in school on a couple of courses. I had just gotten his grade card before we left, and his grades were lower than we both would have liked. Finally I said, "Tommy, I'll tell you what. This next year I'm gonna spend a lot of time with you, helping. We'll really work hard on this stuff." He looks at me and he says, "Yeah, sure, dad. How are you going to do that when you're never at home?" When I got back from the trip I talked to my wife about it and she said, "Let's just look at last year's calendar." We went through it and I was gone 41 out of 52 weeks. She said, "He's right. How are you going to help him?"*

PROGRESSIVE RENTALS: Something snapped for you.

DEVLIN: *You bet. And then the fact that my wife knew it was 41 out of 52 weeks. I knew then it had to be bothering her because why else would she be keeping track of that? That's when I said, "Okay, you're right." And that's also when I decided, hey, it's time to sell. So I went to the board and said: "Guys, the stock market's high." And, the truth is, there were nothing but positive reasons for us to sell.*

PROGRESSIVE RENTALS: Rent-A-Center enjoyed a lot of positive coverage in the business media during 1986. Were you consciously building the company up — fattening the calf, so to speak — before the sale to Thorn EMI for nearly \$600 million?

DEVLIN: *Not at all. In fact, like I say, until June of 1987, when I was with my son (on the fishing trip to Canada), I hadn't even thought of selling. Because everything was rolling and going so well.*

PROGRESSIVE RENTALS: Any advice for the small-businessperson left out there — the entrepreneur?

DEVLIN: *Well, don't get so caught up in the day-to-day activities that you lose sight of where you're going. Too many guys are busy worrying about today's problems and have nothing down in writing of where they want to be a year from now or two years from now. They don't do projections. Yes, they might do next month's*

projections, but they have no idea; they've not made a year's projections or two year's worth of projections. And no matter what size business you are, you need to run it as a professional and build it.

PROGRESSIVE RENTALS: Sounds like words based on experience.

DEVLIN: *That's what we did. And most of the time too many people react to today's problems and never get a line on what needs to happen over the next six months or next year.*

PROGRESSIVE RENTALS: The general thinking in the industry now is that Rent-A-Center is so far out ahead of everyone else — no matter what measuring stick you use — that no one's going to catch up. How would you respond to that?

DEVLIN: *Well, obviously, I could go back to 1975 or '76 when we had five or six stores and ColorTyme had 50 or 60 stores and Remco had 25 or 30 stores. It would have been real easy to say, "Well, gosh, there's no chance we could ever achieve that." At one point Remco had 180 stores when we had about 60. Today we have 1,000 stores and they have about 134. You never know what can happen.*

PROGRESSIVE RENTALS: In 1986 you made a presentation before a group of securities analysts in which you shared some key goals of Rent-A-Center's five-year plan. In terms of growth, the goal was ...

DEVLIN: *To get to 1,000 stores. If you'll go back now you'll see we did it in four years.*

PROGRESSIVE RENTALS: What about revenues? I think the goal was \$800 million by 1991?

DEVLIN: *Yeah. And I would say that '91 will hit it — our goals.*

PROGRESSIVE RENTALS: Pretty much on target?

DEVLIN: *Yes. We always had a five-year plan. And we always had what I called a rolling 12-month projection. And when this month's over I would take a month off but I added a month on the end. I think at all times you should always know where you are going to be going. Obviously, it's going to be pretty damn hard to know where you're going to be five years from now and, truthfully, beyond two years it gets real iffy out there.*

But, you damn sure ought to know where you're going to go in 12 months. And so most people do a 12-month projection starting January 1 and ending December 31. Then in December they start doing the next 12 months. Well, so many things change during the year that, in many cases, your 12 months is already all totally screwed up because things have changed that even you don't know have changed — or whatever. If all through the year, at the end of each month you drop the current month and add a month, you'll always have a 12-month projec-

tion ahead of you. It's a rolling 12-month projection. If you'll always do that, you'll keep a pretty good handle on where you're headed.

PROGRESSIVE RENTALS: So you're constantly recalculating?

DEVLIN: Absolutely. And, that 12 months is a bible. No matter what it takes to make it you've gotta make that happen. That's another thing that I would say to the small-business guy. At Rent-A-Center my philosophy has always been if you've got budgeted \$300 dollars in truck repairs, and it's the 28th of the month and you just had two blowouts on the truck and it costs \$375 to buy new tires — what are you gonna do? We actually had managers who would make a truck sit for several days until the next budget cycle. Because I want you so disciplined to know that you're not gonna spend that money. Now you can turn around and say that doesn't make sense. With only two days left in the month, it's hard to believe that your damn truck is going to sit. But once you do that, now you say that it's okay to miss your budget. It's okay to spend \$375 because something happened in truck expense. Well, then, why can't something happen in labor where you just had to have that extra guy?

I really believe that your expenses are a checkbook. A rental store takes about \$16,000 in expenses; from rent to advertising costs to your utilities to your payroll — it's about a \$16,000 cost per month. Not including merchandise cost. Just those costs. That's just like a checkbook. I just put a \$16,000 balance in it. At the end of the month, end of your \$16,000, you're done. You can't spend \$16,005 because you don't have the other \$5. If you want to go buy those tires, I have no problem if you come back to me and say, "Tell you what, my labor cost was supposed to be \$4,020; I've run less labor so I'll run only \$3,800. So I've got a surplus. My check balance has got a \$220 balance anyway so I can spend that money." I don't mind if a person is cutting somewhere else in expenses — if at the end of the month you don't spend more than \$16,000.

And, by the way, everything you spend less than \$16,000 I'll give you 25 percent of as a bonus. So, if you save \$500 you're making \$125 yourself. That's your incentive to stay within your \$16,000. And, if you go two or three months in a row and don't stay in your \$16,000, well, I'm gonna replace you because I don't need a manager who over-expenses.

If you want to spend it, fine, but make sure it was projected. We gave our people a lot of latitude on making their own decisions. But with that authority comes accountability.

PROGRESSIVE RENTALS: Are rigid controls, then, the key to running a successful rent-to-own company?

DEVLIN: We had the best controls in the rental business. But it takes good personnel to work with controls. You see, people who don't have any self-discipline won't last very long. You can't deviate from what you said you'd do.

PR



Former Mr. T's
coworkers:

Bud Holladay, left;
Tom Devlin, right.



From store manager to multi-millionaire

(Editor's note: Bud Holladay, a former rent-to-own dealer who currently is a vice president for Alreco, was a manager for Ernie Talley when Tom Devlin joined the company, Mr. T's, around 1970. Holladay remembers what it was like to "train" the person who later became arguably the RTO industry's biggest success story.)

Actually, I met Tom Devlin so long ago that my memory has faded. But what I remember most is a cold, drizzly night in New Orleans when I was sitting inside the old converted bank building near downtown that was then a Mr. T's rental store.

I heard this gosh-awful banging on the front glass door and I finally had to go see who it was. Standing on the sidewalk and peering through the door at me was a big blond kid with this goofy sort of smile, waving his hands, motioning for me to let him in. I glanced behind him and there was an old Buick, loaded down with pots and pans and all kinds of clothes. It looked like his entire net worth was maybe \$11.49.

But since he wasn't wearing a ski mask and I couldn't see a gun, I opened the door and Tom Devlin introduced himself. He said he was my new "manager trainee." I immediately began to wonder what I was being punished for.

(Editor's note No. 2: Devlin says he was already a store manager at the time, and he was only in New Orleans as a kind of way station before going to Baton Rouge to manage a new store there — which Holladay confirms in the next paragraph.)

My fears soon proved unfounded when Tom went up to Baton Rouge to open a new prototype concept — a "satellite store" that would be sort of managed from the New Orleans base. In those days, the late 1960s and early '70s, nobody had more than one store in a market. Baton Rouge was about 90 miles from New Orleans and Ernie Talley wanted to expand.

Tom was the world's best salesman. He could rent anything we had, and we didn't have much — basically only stereo units and color TV sets. The customers loved him. Nobody else understood him. I was supposed to train him. I had no idea what an enlightening experience that would be.

I used to sit back and watch him work the phone and floor. It was like playing a 33-and-a-third record at 78 rpm. But it all worked out okay in the end. We were open 18 months before we ever had a chargeoff or a bad account. And for those days, we grew pretty fast — 400 or 500 BOR right away.

But Tom's personality grated on me because, even though I was only a couple of years older, I was (of course) much more mature and settled. That meant I already had a wife and kids and a house payment to protect.

Tom had none of those then; just a driving force inside him to grow, develop, improve, build. He was a smalltown young man with big ideas and a bigger ego. In all my wisdom, I knew this guy would never last.

Sure enough — 15 years and a half-billion dollars later — I was right. It's positively uncanny.

— Bud Holladay

thousand things that demand little parts of our time and they cannot all be completed off the job. Certain offices are open only when you have your store open. You or your employee will tend to be less productive as long as this situation remains unsolved.

The most time-efficient way of handling these situations is to address them right away. Look at alternatives for accomplishing the task in "off-duty" hours like days off or lunch periods. If there is no satisfactory solution, create one that is acceptable to both you and the employee. If you have to give time off during normal work hours, look at working an equal number of hours earlier or later in the day so they have their full number of hours worked for the day. (Be cautious of allowing them to complete the hours on a different day or week. Check your overtime laws to determine if a person must be paid

overtime for hours worked over eight in a day.) Your solution should work for the employee without costing the business anything in extra wages or productivity losses.

Simple solutions to a difficult problem

Time management is one of the most complex problems that you face as a manager. Time marches on—and in its passage new demands and new priorities are constantly being imposed on you. If you have a system for managing your time, even as simple as a daily "TO DO" list, these new priorities can be taken in stride and the whole can be reordered.

Without some form of activity list or priorities established, you can only react to each new situation as it occurs. This puts you into the position of always

being a victim to time rather than its master. To be the master of your time:

- Get the right people doing the right things.
- Coach your employees in making the decisions important to their results.
- Structure your day so you know which things are most important to accomplish and so you can evaluate new requests for time.
- Leave some time each day for conversations, for the unexpected, and to plan for the next day's "TO DO" list.
- Have specific times for meeting vendors and have a vendor file for each business so you can cover everything in the least amount of time.

The best answer to time management problems is YOU. It's your time. How do you choose to spend it? PR

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The Ideal Rental Manager was designed **by** a Rent-To-Own company **for** the Rent-To-Own industry. Accuracy is expected by you, delivered by Ideal.

FLEXIBLE

Because it can be installed with a variety of options, and the system is regularly updated. The Ideal Rental Manager is able to stay up-to-date with your business.

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Reliable.
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With Ideal, you increase productivity, and decrease inaccurate transactions as well as inventory theft. We understand the problems unique to Rent-To-Own companies.

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