

Progressive

February/March 1991

Rentals

The magazine of the rent-to-own industry

**A common-sense
approach to taxes**

**RTO finances:
Changing times**

**Advertising:
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**Management:
The people puzzle**



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APRO

PR

Progressive Rentals

February/March 1991

The magazine of the rent-to-own industry

Volume 11, Number 1

Features

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Solving the 'people puzzle'

Doing the normal things in rent-to-own, such as good products, pricing and advertising, will barely get you in today's game. To win it, you need top-flight employees.

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Learning layout saves money

How much money do you spend a year on layout? If you've got access to a computer and the right software, plus the willingness to learn, you can save money while gaining control over your print materials.

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Dealing with T-Day, April 15

We all know what April 15 means: Uncle Sam wants our money, and that's when he says we have to pay. Here's a common-sense approach that can help ease this annual feeling of dread.

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APRO '91: Bet on it!

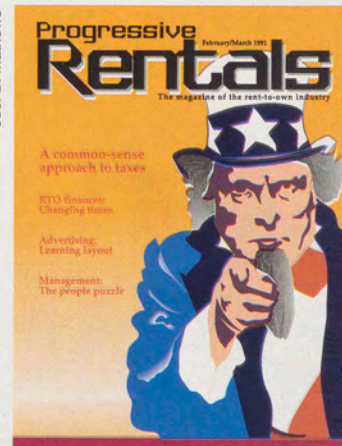
Have you got Aug. 11-15 marked on your calendar? If not, you should. Those are the dates for APRO's 1991 convention and trade show — Bet on It! This year the annual event returns to Las Vegas, popular site of past revelry.

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Influencing IRS positions

One segment of the rental industry, tuxedo-rental firms, decided to take a proactive approach on tax issues. Here's what happened.

Joel B. Mathews



ON THE COVER: Taxes are a concern for everyone, and rent-to-own dealers aren't "ex-empt" from this inevitable unpleasantness. Our coverage of the tax topic ranges from common-sense basics to industry-specific issues. The fun begins on page 20.

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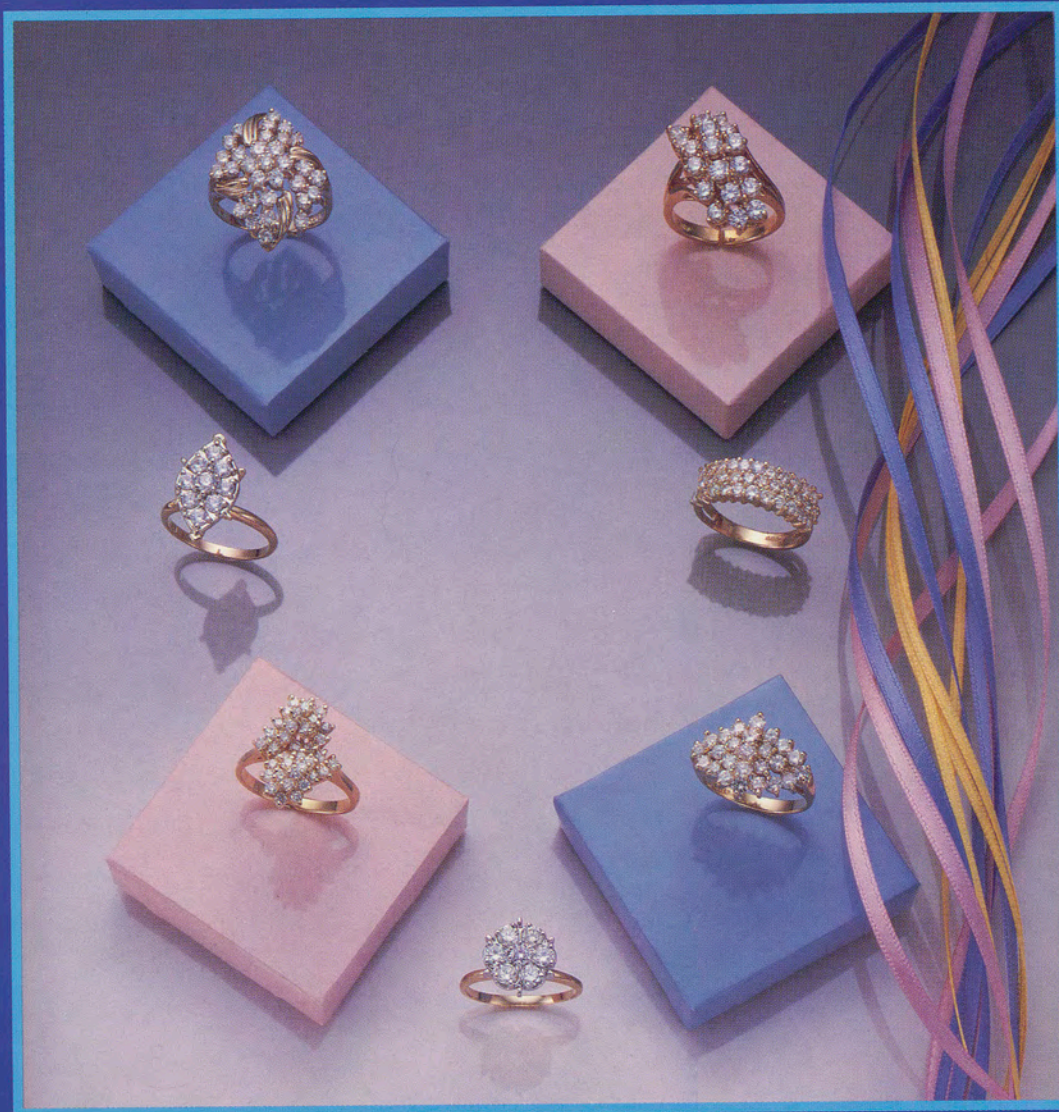
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News & Products

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Bet on It! is no misnomer

THE APRO STAFF IS GETTING DEEPLY INVOLVED IN THE PLANNING PROCESS FOR THE 1991 CONVENTION AND TRADE SHOW IN LAS VEGAS — “APRO '91: BET ON IT!”

AS PRESIDENT, I AM, OF COURSE, INTERESTED IN THE WAY OUR AUG. 11-15 SHOW IS RECEIVED BY OUR MEMBERS, VENDORS AND THE INDUSTRY IN GENERAL. SO I STICK MY NOSE INTO THE PLANNING PROCESS ALSO.

• • • • •

In thinking about the name of the show, “Bet on It,” it occurred to me that the term is pretty much indicative of what members, vendors and other interested parties have come to know about APRO: If we do it, we do it well. Others have put on trade shows, published magazines, conducted seminars, hosted parties, etc. And, admittedly, some have been pretty good. But your trade association has consistently provided these services for members and vendors throughout the years, with a predictable result — excellence.

From conventions and trade shows, to publications with realistic circulation numbers, to well-run seminar programs by qualified speakers, our performance level has, with few exceptions, been extraordinary. If the above paragraphs sound like self-serving back patting, I am sorry. But the fact is that I, the APRO board and

the dedicated staff in Austin are damn proud of what we have accomplished. In a time when everything else in the industry has been changing, we have been able to maintain or improve the service level in every category.

So, if all this is true, why isn't every rent-to-own dealer an APRO member and why do people demand duplicative services from other parties? Frankly, I don't know. Time and time again I've asked dealers to communicate their needs to APRO headquarters and we'd do what we could to accommodate them. Those who have will tell you that we've always responded to their requests in some positive way. Again, let me urge you to not just sit in your office and gripe about what APRO isn't doing for you. Pick up the phone and let me or Bill Keese know what you want. In most cases, your request can be implemented immediately. Tell us what services you want, or settle for what everyone else wants. The choice is yours.

Getting back to “Bet on It.” Very shortly you'll be receiving your registration packet. I encourage you to get your registration in early to ensure your place in the activities. We're expecting a record turnout this year, and don't want to have to turn anyone away. This convention and trade show is shaping up to be the biggest and best yet, and it comes with a simple guarantee:

It's the only “sure thing” you'll find in Las Vegas.

PR

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BY

TED WILSON

Progressive Rentals unveils redesign

If you've received your copy of *Progressive Rentals* a little later than normal this time, the delay was for a good reason.

The APRO Communications Department, along with graphic artist Joel Mathews, has been working on a comprehensive redesign of the magazine.

This issue unveils the new look.

Goals of the format change were set with our readers in mind. It's taken some time and effort to implement those goals, but we hope the final result is worth it. Here are some of the main, reader-driven goals of the redesign:

- We wanted to establish a cohesive

design so readers in the rent-to-own industry will immediately identify with *Progressive Rentals* as a truly progressive magazine. Notice our new logo on the cover; the layouts inside, which make better use of color; and even the numbers at the bottom of each page. We hope these elements contribute to a consistent and attractive package.

- We wanted the magazine to be more readable, and that's why we've changed the typefaces — or fonts, as they're called in the electronic (desktop) publishing world. We've chosen a font called Melior for most of the body copy. (This column is set in Melior.) It's a somewhat elegant serif that's easy on the eyes. Meanwhile, some of the headlines are set in **Kabel**. It is a strong, sans serif font that provides a kind of character appropriate to the entrepreneurial spirit *Progressive Rentals* readers seem to embrace.

- We wanted to kick off new departments to bring you information relevant to your livelihood, such as RTO Finances (see page 14). We also wanted to revise existing departments, such as News and Products, to make them better organized.

Even though design is important in conveying an overall message, content remains the key to a worthwhile publication. We're making every effort to address meaningful topics in rent-to-own, provide you with shorter stories in general (we know you're busy running a business and don't have time to read book-length manuscripts), and present some of the industry's biggest success stories, as well as a few rank-and-file heroes.

Progressive Rentals is the magazine of the rent-to-own industry. It says so right on the cover. This publication is for you. If you've got ideas on what kind of stories you'd like to see in future issues, we'd like to know them. Just give Bill Keese, APRO executive director, or me a call. You can reach us at (512)794-0095.

Thanks for reading.

— John Gormley, editor

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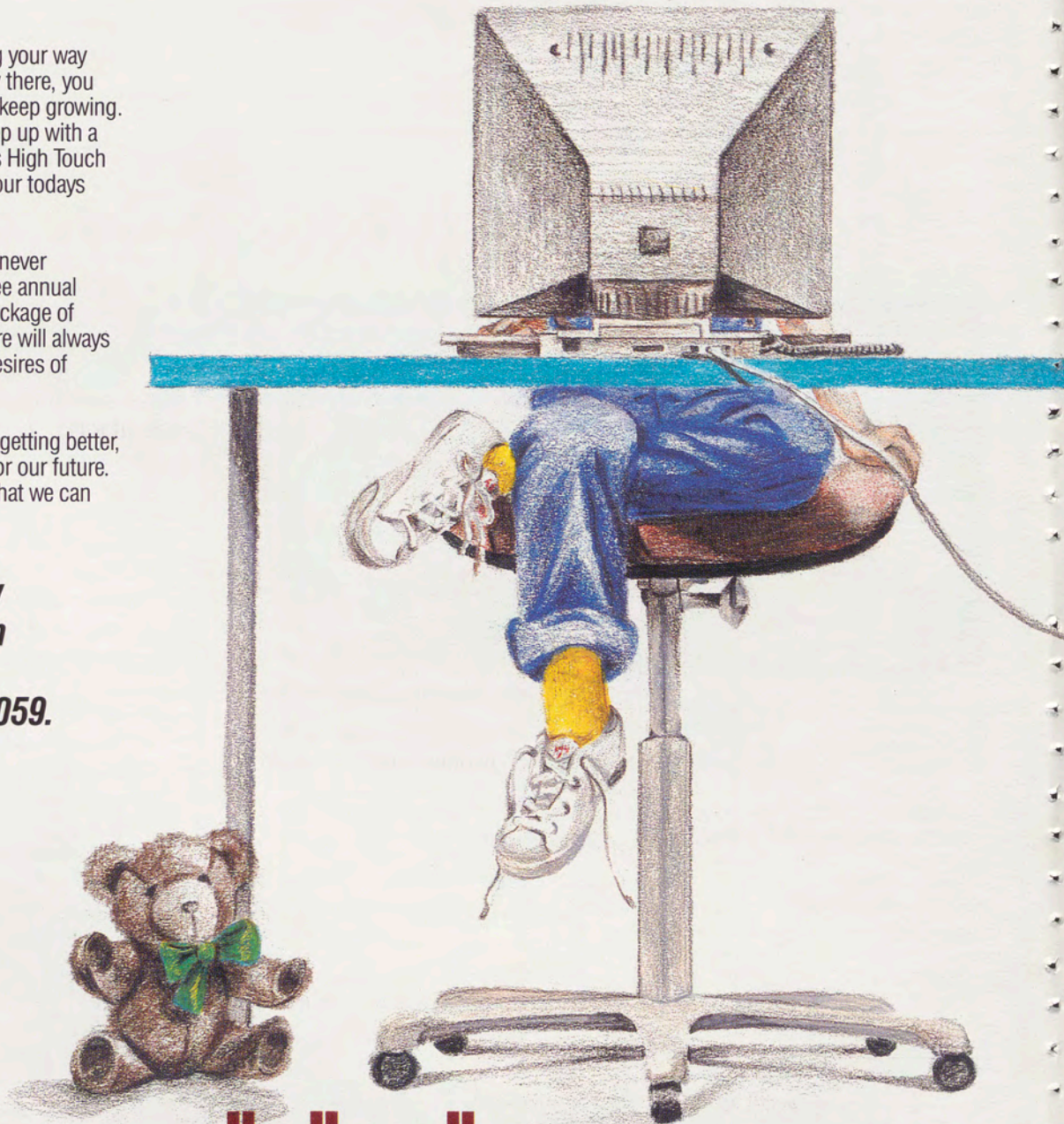
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STATE BY STATE, RENT-TO-OWN LEGISLATION IS TAKING HOLD ACROSS THE NATION. A FEW STATES ARE CURRENTLY IN THE PROCESS OF AMENDING THEIR ORIGINAL STATUTES. DEALERS IN ALL STATES ARE SUBJECT TO CHANGING LAWS, TOO OFTEN COURTESY OF THOSE WHO DON'T UNDERSTAND OUR INDUSTRY OR OUR CUSTOMERS.

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Finance companies are also changing the environment for dealers. The traditional RTO lenders are establishing new guidelines that, in most cases, are quite different from previous ones. More and more dealers are looking at bank financing for their operations and are finding most bankers don't understand "cash-flow financing" as we have known it.

The judicial process is constantly changing certain rules by which RTO dealers operate, such as bankruptcies. This has the net effect of causing RTO dealers and their attorneys to spend more time keeping up with case law in the various states.

Because of the savings-and-loan debacle, the cost of the recent conflict in the Middle East, the impending banking and insurance crisis and countless other financial problems, Congress is faced with massive deficits. This combination of pressures is fueling what has become known, in increasingly ominous tones, as the budget crisis.

Lawmakers are scrambling for sources of increased revenue. Now more than ever, we need to have solid reasons to

justify this industry's tax positions.

APRO has developed an overall program to meet the challenge of this changing environment. The APRO Special Projects Fund was established so that APRO can monitor Congress to ensure that the unexpected doesn't blindside this industry; to help establish RTO legislation across the country on a state-by-state basis; to prepare all necessary information to defend the tax positions of this industry at all levels; to prepare information about our industry to assist all RTO dealers in their negotiations with lenders; and to develop a legal library to serve the needs of RTO dealers and their attorneys.

The success of this program is essential to our industry. It will provide us with the tools to help stabilize this current changing environment. Most APRO members have stepped forward to contribute the funds necessary to accomplish these goals. To all of you who have contributed, thank you.

Several APRO board members, including Wayne Chambers, Dave Egan, Kevin Quinn, Allen Lewis and Bob Simons, have been calling APRO members to talk about this program. If you want, I'm sure any of them will be glad to discuss this program in greater detail.

We have mailed information out on this program to all APRO members. For those of you who have not seen this information, or would like to discuss the program with Ron Waters, APRO's director of government affairs, please give him a call at (512)794-0095.

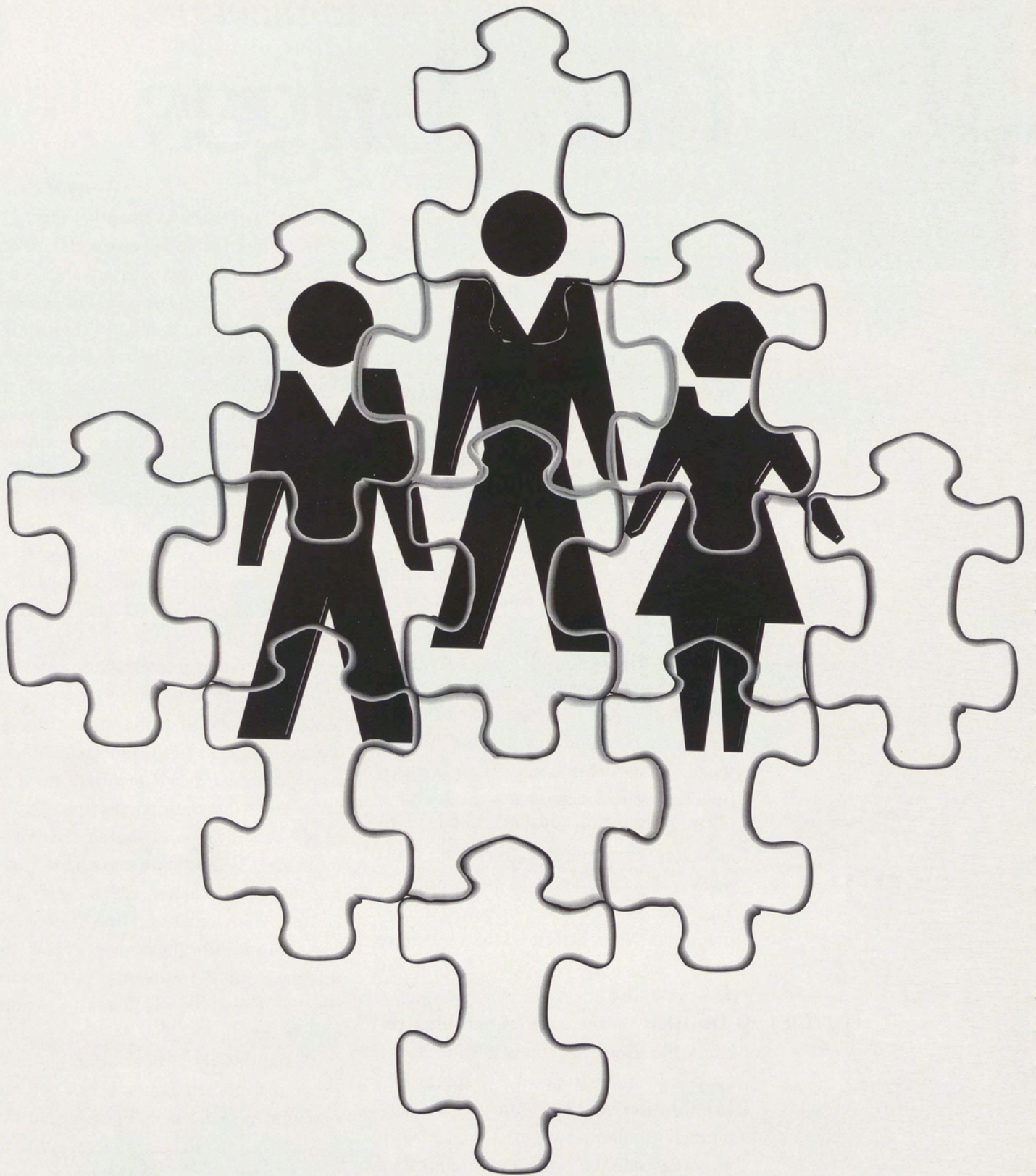
We need your help. The RTO industry needs your help. The livelihood you save could be your own.

PR

• • • • •

BY

BILL KEESE



.....

BY

WAYNE OUTLAW

Solving the People Puzzle

RENT-TO-OWN IS MORE COMPETITIVE THAN EVER. GOOD PRODUCTS, COMPETITIVE PRICES, AND EVEN A STRONG MARKETING AND ADVERTISING PROGRAM WILL BARELY GET YOU IN TODAY'S GAME. TALENTED AND SKILLED EMPLOYEES, WHO SERVE THE CUSTOMER AND TAKE CARE OF DAILY BUSINESS, WILL HELP YOU WIN IT.

Employees' and managers' abilities to sell, serve customers and operate the business will determine BOR, collections and, ultimately, profits.

Sounds obvious, doesn't it? Then why aren't all rent-to-own stores staffed by highly skilled, customer-oriented, highly motivated people? Unfortunately, many organizations are puzzled by this question.

The art of managing people productively and effectively is perhaps one of the greatest challenges facing today's rent-to-own manager. This article will address and help solve "the people puzzle."

It may seem difficult to hire, train, manage and retain good people. While it may not be easy at first, once the pieces of the puzzle are defined and put in their proper perspective, it can become relatively simple.

Hiring top people

If the performance of people is critical, the first step is hiring top people. The better you hire, the easier training and managing will be. It stands to reason that if a poor hiring decision is made, it takes more time and effort to train and manage the individual. Regardless of the time and effort invested, a poor hiring decision may result in turnover which costs the company money — and causes the manager stress.

From our experience training rent-to-own companies in our "effective hiring" program, we've identified the three most

common hiring problems:

- Not taking ample time to do it well;
- Not making hiring a top priority; and
- Not doing it consistently.

If hiring is only a priority when there is a critical opening or numerous openings, the company will have inconsistent and, most importantly, an inadequate flow of applicants.

As a result of not using all available sources, the company is forced to select from a small number of people. Consequently, the companies hire marginal people and, even after a great deal of time is invested, the employees perform poorly and leave. If it's necessary to hire good people, it's also critical to allot the time to consistently do it well — not just when there's an opening.

The ability to make a good hiring decision must be learned. Very few managers instinctively know to identify and hire a winner. It involves developing strong interviewing and reference-checking skills.

Once a company has an ample supply of candidates, the people in charge of hiring must define what they're looking for in each position. Without clear and objective hiring criteria to measure the individuals with, it is impossible to make a good and well-informed decision.

Not only must the prospective employee have the skills, but it's also important that his behavior matches the job. There are

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many talented and intelligent individuals who might not be the best person to fill a specific position. One person may make a great account manager but not have the ability or motivation to pick up the phone and make a sales call to someone he doesn't know.

Pre-employment evaluation instruments are very helpful in determining if the individual's normal behavior matches the behavior that's needed for the position. Instruments can also give key insights into whether the individual is trustworthy and honest. They can provide information about the individual that will assist the

manager in working and communicating with the individual.

The best indication of future performance is past performance. Many managers think that even though an individual has a record of poor performance and short tenure in his previous position, he can be "turned around" into a top performer. History has proven that this is unlikely. Very few individuals change performance just because they change companies. Uncover the individual's past performance and you will be able, to a large degree, to predict how he will perform in the future.

It's been said that a person with bad references almost never makes a good employee. Remember: There will be

situations when a top performer will get one poor reference, but further checking will usually uncover an extenuating circumstance. And often the negative reference will be offset by positive ones.

If you want to make your job of managing easier, start out with people who match the job and have been successful performers in their past jobs, whether it was flipping burgers while in school or managing a store.

Understanding differences

Have you ever wondered why you have used a communication technique or a management strategy with one person and it worked very well, but it

Who's Who in management services

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

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Training comes in many forms. The most common in rent-to-own is on-the-job training. This usually consists of assigning an individual to work with an experienced employee. This type of training provides a great deal of personal attention. Unfortunately, without structure there is no way to ensure quality and consistency.

fails miserably with another? Why is that? Very simply, they are different people.

People are not only different, they are predictably different. In fact, this difference is one of the keys we mentioned in hiring top people. A great deal of work has been done over the years to help us recognize and understand the behavioral differences of people and how to work more effectively with varying styles.

You can see contrasting behavioral styles in your organization. Some people are very direct and results-oriented, while others are very verbal and like to persuade people to their point of view. Some want to gain the cooperation of others and work very hard at the assigned task. Still others want to ensure that people follow or comply with rules and procedures. Some exhibit only one style, while others may be more complex and have a blend or combination of styles.

The more you know about the employee's style of behavior, the more you can predict how he will approach a situation or job, and the more effectively you can work with that employee. For example, the Driver or Direct person wants to "not beat around the bush," get down to business and focus on specific results. The Expressive or Persuasive person likes interacting with others and the opportunity to inspire and sell. The Amiable or Cooperative person wants to work in situations that are predictable and structured. The Analytical or Cautious person needs procedures and policies and directions clearly defined.

Even with this small amount of information, you may be able to spot the style of some of your coworkers. The more you know about them and what they need to be productive, the more you can help by providing an environment in which they will be motivated and successful.

The Driver person is motivated by a challenge. The Expressive person, meanwhile, is motivated by recognition and prestige. The Amiable person is motivated by security and appreciation. The Analytical person is motivated by a need for order. That's why he or she believes that following rules and procedures is important.

The more you know about those you work with, the better you'll be able to communicate with them, create a motivational environment for them, manage them — and increase their results. In fact, the more you know about yourself, the more successful you'll be in working with others and achieving results.

Defining expectations

Even before you begin to train an employee, the expectations you communicate are important. The subtle messages that the employee gets from the very beginning forms the foundation for the expectations of their behavior and performance. It is essential that the employee understand all aspects of what is expected, not just the overall performance level. If expectations are not communicated to employees, they have no hope of fulfilling them.

If knowing what is expected is critical, is there any wonder why if an account manager is hired and only told to make deliveries and not told what specifically is expected of him, he soon begins to make what the manager perceives as mistakes?

To be able to meet the manager's expectations, the employee must know:

- What task or jobs are to be done;
- How each is to be done;
- How well each is to be done;
- How often or what quantity; and
- When they should be completed.

It may be difficult to manage the employee if many of the procedures

and methods of doing business have been developed on an informal basis and have never been recorded. They may have been passed on from employee to employee and, as a result, may not be communicated clearly, if at all.

It's essential that an organization have its procedures in writing. In small organizations, procedures can be written out on several sheets of paper. In larger organizations, it may take the form of a procedures, policy, operations, employee or manager's manual.

Remember: If the employee doesn't know what you expect, he'll have no chance of fulfilling those expectations. The philosophy of "they ought to know" results in poor performance, management stress, poor morale, turnover and unhappy customers.

Training

Just because employees or managers are good at a specific task or job, people believe they are good trainers. This may be far from the truth. Being good at a task does not mean you can easily communicate how to do it.

Training is a learned skill. In an environment where many have learned by trial and error, training another person may be difficult.

Training comes in many forms. The most common form in the rent-to-own industry is on-the-job training. This usually consists of assigning an individual to work with an experienced employee. This type of one-to-one training provides a great deal of personal attention. Unfortunately, without structure there is no way to ensure its quality and consistency. And it can cause problems.

With unstructured training, the employee not only picks up the strong points of the trainer but also learns the trainer's weaknesses. These problems can be magnified when the employee being trained later trains another employee. As a result, each generation of training tends to be less effective than its predecessor.

We've developed a structured approach to training new employees that has produced positive results for our clients. By identifying the task, the level of performance, the individual responsible and the completion date,

CONTINUED ON PAGE 38



Changing *times*

CHANGE. IT'S SOMETHING THAT IS INEVITABLE. HOWEVER, ITS VERY NATURE CAUSES DISCOMFORT AND, SOMETIMES, OUTRIGHT FEAR. A COMMON DICTIONARY DEFINITION OF CHANGE IS "TO BE OR CAUSE TO BE DIFFERENT."

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Judging from this definition, it's easy to see that the rent-to-own business has changed and, in fact, is in the process of changing even more.

Our industry is confronted with a whole new set of issues, spurred on by change, as the 1990s move forward. Issues affecting RTO include finances, tax questions of all types and legal issues — both state and local. Let's examine these issues, which all affect our bottom line and challenge our way of doing business, and begin addressing them from an industry standpoint.

A proliferation of competition requires that much greater attention be devoted to basic aspects of the business — people, products, pricing and store position. It's not good enough anymore to open a new store, stock it with product and people, and expect rapid growth and quick profits. Rent-to-own has changed, and dealers throughout the industry must be more knowledgeable and responsive to other issues that crop up as the business continues to mature.

The legal issues have been well documented, and APRO leaders have put a great deal of energy into addressing them over the past several years. Most rent-to-own dealers want to conduct business in a straightforward manner, and APRO's basic thrust is to continually provide the latest information so its members can operate not only legally — but also ethically — sound businesses. A lot of progress has been made in working with various state legislatures and consumer

groups toward this industry goal.

As a result, many states have passed legislation to recognize this industry and allow business to be conducted in a reputable manner. Dealers across the country have played important roles in helping rent-to-own mature and grow by being responsible to the legal issues. A few dealers may still resist the winds of change as the consumer and legislative environments keep evolving, but every dealer needs to do what he or she can to create a high level of integrity for the industry.

The tax issues are more complicated to deal with than most because of the industry's fragmentation on tax treatments and because of the vastly different personal tax situations of individual dealers. A recognized body of literature hasn't yet been developed that addresses a broad range of tax and accounting issues in rent-to-own. Moreover, there's a large division between generally accepted accounting methods for RTO and the tax code. This fosters even more confusion over what truly constitutes the "best fit." In short, a gray area exists and the winds of change are slowly redefining that gray area.

The most common tax question is related to the periodic costing of merchandise. Common sense and proper accounting technique match revenues and expenses, which means that periodic costing should take place as revenues come in. Typical methods are income forecasting or some procedure of straight-line writeoff that approximates income forecasting. The Internal Revenue Service doesn't clearly address how merchandise should be periodically costed for tax purposes. In fact, some IRS agents have found that a variation of monthly matching of revenue and expense is acceptable, while others suggest that a variation of modified acceleration cost recovery system (MACRS) should be used.

Another tax issue that surfaces from time to time is the recharacterization of the rental agreement as an installment sale. This forces the total projected gross profit on a unit of merchandise to be recognized in the period

• • • • •

BY

WAYNE CHAMBERS

Today's lending environment calls for a collateralized loan, profitability, well-kept, computerized records, debt less than six times monthly revenues, low delinquencies, low to moderate idle inventories, personal guarantees and direct owner involvement.

that the unit is rented. But this is not truly how a rental transaction works and it creates a tremendous tax burden for the dealer in the initial tax year. It is not conceivable that every unit rented should be taxed in this manner when a majority of the units do not go to term on the initial rental. This is clear when you document a low keep rate and provide an accounting of the number of times a unit may be rented and re-rented before a customer will complete the rental to term.

Other tax questions come from state and local authorities on how to properly file sales tax returns and property tax returns.

Literature does not even exist defining rent-to-own for workmen's compensation calculations or establish a clear category for casualty insurance policies. These aren't necessarily new questions; however, the winds of change are indicating that there needs to be some uniformity on methods of reporting. What one dealer may decide to do may or may not be consistent with the methods of another in the same taxing jurisdiction.

A partial solution to these current issues centers around the position dealers take on information requirements and record keeping. Tax audits are handled effectively and more quickly when dealers have a computerized system that provides timely and accurate information. It's extremely difficult to discuss inventory cost adjustments and keep rate calculations when the records are kept manually and may be incomplete. In fact, the proper calculation of an income forecasting method of depreciation is virtually impossible without a computerized system. Dealers can save time and money spent with attorneys and accountants if they invest in a good,

computerized program that tracks their business. A computer system with a great deal of integrity is a valuable asset.

From a financing standpoint, lenders such as Transamerica, Chrysler First, General Electric Credit Corporation and McDonnell Douglas aren't as active in the rent-to-own business as they once were because of the changes in RTO. Most — if not all — of the traditional lenders have experienced difficulties in their loan portfolio created by a changing environment. Meanwhile, many RTO dealers have had trouble meeting loan requirements, and several have suffered foreclosures and lost their stores. A great deal of debate continues among dealers and lenders as to who is responsible for the difficult situation and what can be done to reclaim the "good ole days."

The availability of an unlimited supply of money to run the RTO business is gone with the days of rampant growth and acquisitions, which placed dealers in highly leveraged positions. Competition has created a situation in which astute business decisions are prerequisites to survival and prosperity. Many dealers didn't anticipate the changing business climate, did not make the necessary adjustments in their businesses and consequently ended up in trouble with their lenders.

Today's lending environment calls for a collateralized loan, profitability, well-kept, computerized records, debt less than six times monthly revenues, low delinquencies, low to moderate idle inventories, personal guarantees and direct owner involvement.

All lenders really want is for dealers to operate their RTO businesses in a way that's consistent with other "for profit" businesses. For a specific look at what RTO lenders are requiring these days, see the list at right. **PR**



Wayne Chambers, general partner of CWD Enterprise Two Ltd., a Houston-based rent-to-own company, is also APRO's second vice president and chairman of the association's tax and accounting committee. His story originally appeared in the February issue of RTO Network News.

How to handle the new game rules of financing

What can APRO-member dealers do to help resolve the problems associated with the changing business climate?

Here are eight ideas:

- 1. Run a profitable business.**
- 2. Reduce debt.**
- 3. Maintain well-kept records.**
- 4. Support the industry trade association.**
- 5. Participate in industry surveys.**
- 6. Participate in state and local activities that involve rent-to-own.**
- 7. Plan for the future and work the plan.**
- 8. Stay abreast of current events.**

Seems simple enough.

— Wayne Chambers

Learning
Layout

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BY
RANDY BUFFINGTON

There are several \$150 to \$200 computer software programs that are user friendly. These programs have the flexibility of allowing you to design multi-page layouts. You can also buy add-ons which give you a wider variety in artwork and fonts. Everything from doorhangers to setting up a storewide newsletter can be yours for a minimum of effort and expense. Taking the time to set this program up can give you many benefits — the least being the dollars you save.

Once you have the software you feel comfortable with it's time to get the creative juices going. Many people feel intimidated by the thought of being creative. Remember, there are few ideas that haven't come across someone else's mind already. It's just a matter of knowing how and where to look.

Start by subscribing to weekly shoppers that are in areas of heavy rent-to-own

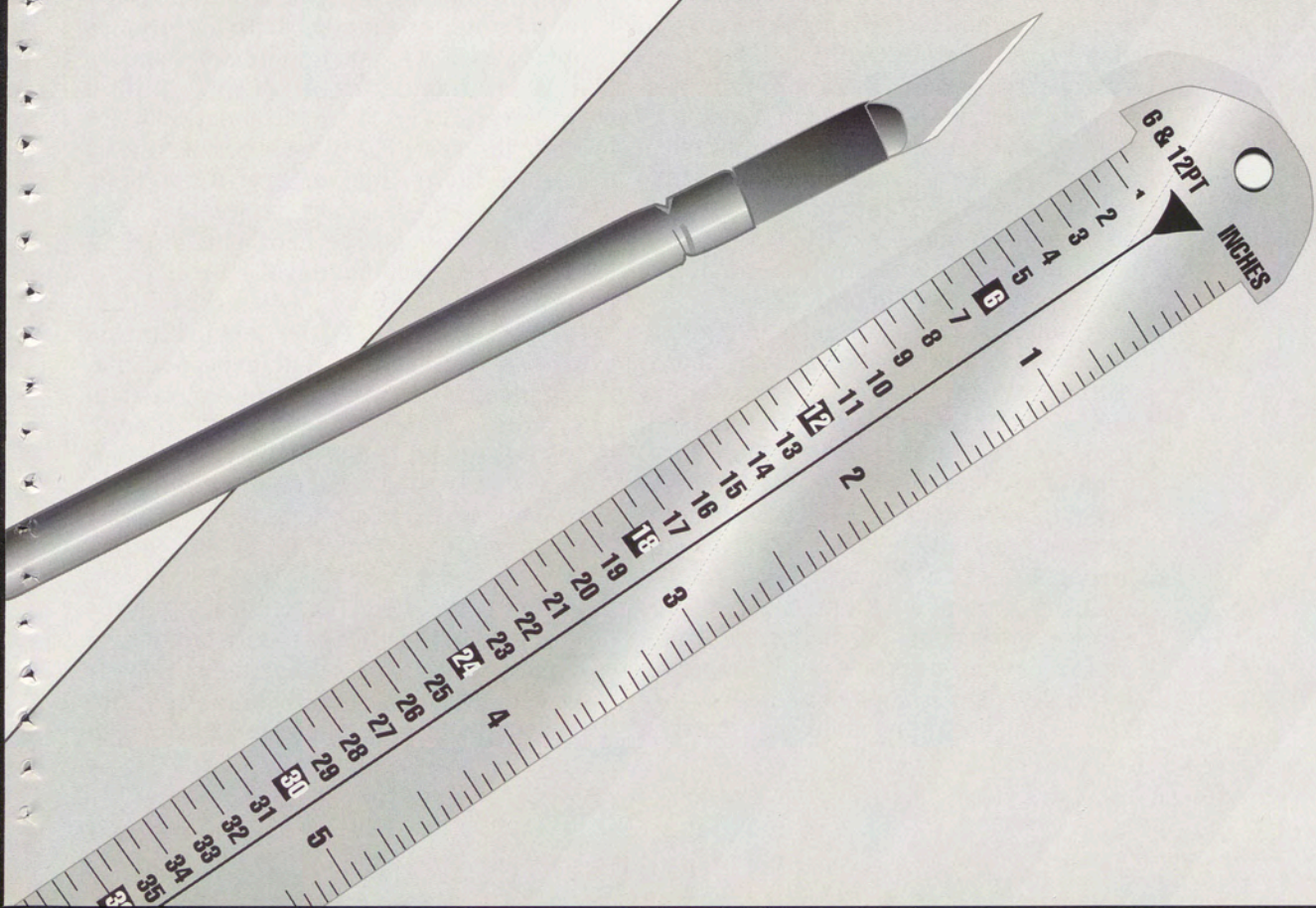
concentration. Some of the chains in these areas have good advertising departments. Set yourself up a three-ring notebook with plastic sleeves. As you come across ads that you like, put them in the notebook. You want to be careful not to copy the ad exactly. Just take the good ideas that apply to you. It is surprising how many ads are copyrighted. I make it a point to copyright mine before sending them to my dealer clients.

Another source of ideas is *The New York Times* or other major newspapers. Look in the entertainment section for key phrases that will help you express your ideas. Keep in mind that advertising in large newspapers is very expensive. *The New York Times* can cost a person several thousand dollars just for a couple of lines. Top professionals design these ads to get the most out of their clients' advertising dollars.

CONTINUED ON PAGE 44



SALE





Recession *questions*

RECESSION: A PERIOD OF REDUCED GENERAL ECONOMIC ACTIVITY MARKED BY A DECLINE IN EMPLOYMENT, PROFITS, PRODUCTION AND SALES THAT IS NOT AS SEVERE OR PROLONGED AS A DEPRESSION.

• • • • •

We are all wondering what is going to happen next in the rent-to-own world. The last time the country had a recession, in the early 1980s, this industry grew as never before or since. There were a handful of companies poised to take advantage of the expansion, and they did so. These times also attracted a lot of new players and new money, some of which are still with us today. Everyone finally agrees that we are in a recession, again. So, where is the juice? Interestingly, dealers with credit and the ability to put new product on the floor enjoyed a better-than-average fourth quarter (including a nervous but, finally, fulfilling December). A few dealers said "best ever;" others, more guarded, merely reported "better than expected." Those who are struggling continued to struggle and must surely wonder if they will ever get to grow out of their debt and make some money.

If any of us knew certainly the answer to the imponderable economic questions that surround the cycles of consumer retailing, we would be writing on the front page of the Wall Street Journal. There are a few things about this recession that make it look less rosy for rent-to-own than we all might hope for, but not so gloomy that we need to despair either. A negative factor is interest rates which continue to go in the wrong direction from the rent-to-own industry's point of view. Most dealers have interest floors on their credit lines, and so beyond a certain point, lower interest rates are irrelevant as an expense factor. On the other hand, low interest

rates mean a continuing, ready supply of consumer credit which money competes for rent-to-own customers.

The devaluation of real estate, once regional but fast becoming a national phenomenon, has made real estate loans risky. Most financial institutions already own more real estate than they ever thought they would and are faced with the prospect of owning it for years. The recession has had one predictable result and that has been to curb domestic business borrowing, generally. In a recession there is less business being conducted overall and, therefore, less need to borrow. Moreover, companies are still working to unload some of the leverage they added during the past decade when mergers and buyouts were the rage.

Financial institutions, however, cannot make any money by counting their inventory in the vaults — they need to loan it to somebody. With real estate and business lending down, many are turning to the only game left — consumers. If you watch any TV these days, you are bombarded literally around the clock with the promise of easy credit. One such commercial speaks in stentorian terms of the 40 million Americans who were turned down for credit last year. The pitch is how shameful and debilitating that must be. But a cheap call to a 900 number "guarantees" the caller a bank charge card and a bright future as a consumer of substance.

We may all wonder whether the consuming public will be the next institution to be so overwhelmed with debt as to sink. American consumers now owe more than \$3 trillion, compared with \$1.3 trillion in 1980. Personal bankruptcies rose 15 percent during 1990. That comes on top of a 10 percent rise in 1989. In the meantime, some rent-to-own customers are calling those 900 numbers. They may learn nothing more than that if they put \$300 in the bank, the bank will give them a credit card with a \$300 limit. But those and other new easy-credit come-ons are competing with rent-to-own showrooms for customers even

• • • • •

BY

ED WINN III

To the extent that rent-to-own appears recession resistant, we may all have a lot more suitors trying to sell us product. And that is a good thing, since it will broaden the brands and choices carried in the industry and thereby tend to broaden our appeal to consumers.

in the midst of a recession.

The downturn does not, however, have to mean that the pie must get smaller for rent-to-own, at least not just because of this flood of money into consumer credit. Easy consumer credit is merely a matter of competition, lately at a higher level, but still nothing more than competition. And some of us, though by no means all of us, are up to the task. Unfortunately, I talk to rental dealers every day who see themselves as the store of last resort for their customers. What that really means is that they do not want to compete for customers except, perhaps, with another rent-to-own dealer, if they must. Too many of us in the business are not willing to compete with the credit markets. If these dealers do not have customers whom they feel are "forced" to do business with them, then they fear that they won't have any business at all. That is poppycock.

I also talk to dealers who have a higher view of their calling. They are focused resolutely on the value of their goods and services, and they offer them persuasively and competitively to one and all. And they are doing quite well. I will not suggest that even these dealers would not delight in a little bump in consumer interest rates, a little squeeze on consumer credit. Such events would make them all the more competitive, and give them the chance at a little larger slice of the pie. But they don't depend upon such events. They are out there daily hustling their wares in spite of external events. They are ready for expansion when it comes, and they deal with contraction when it comes. You see, they like what they do, and they believe in their product. But then, these dealers would probably feel the same way if they were selling shoes or running a grocery. The only

people who can prey on the poor are predators. I won't deny that rent-to-own has attracted a few of those but not nearly as many as the media reports.

Of more moment, perhaps, in a recession is the extent to which the downturn truly curbs consumer spending for the things that we rent. Suppliers are edgy and worry that retail is going to move a lot fewer televisions, refrigerators, stereos and sofas. To the extent that rent-to-own even appears recession resistant, we may all have a lot more suitors trying to sell us product. And that is a good thing, since it will broaden the brands and choices carried in the industry and thereby tend to broaden our appeal to consumers. But when times are tough, suppliers are not the only people to cast sidelong glances at rent-to-own.

Retailers cannot help but wonder whether rent-to-own would be a viable option in their stores. The first time around, I was invited to a lot of retailer meetings to discuss the rent-to-own option. Beyond the legal misgivings I shared about operating retail and rent-to-own out of the same location, I regularly preached that rent-to-own was not for the faint of heart. And it still isn't for any of you retailers who may be reading this. It is too facile to suggest that it cannot be done — mixing retail and rent-to-own. That message lacks credibility. It is accurate, however, to suggest to retailers that they need to school themselves on collections far beyond what they probably already know, and they had better learn what to do with used product, since the business of renting involves picking most products up and renting them again.

It is not the object of this column to dissect the pros and cons of adding rent-to-own to retail. It is the object to discuss the impact of the recession on

our business, and one result is likely going to be more retailers sticking their toes in the waters of rent-to-own. Most won't have the appetite to stick with it, but it is a thing that will happen. It will frighten dealers in markets where it happens, but the truth is that as we evolve there is considerable expertise that can be developed in marketing rent-to-own. That expertise comes from working with the system and will always beat a cavalier retailer approach of having a few rental agreements under the counter, "just in case ..."

And so, while things change we remain, predictably, the captains of our fates. We do not have to concede any loss of customers beyond whatever overall losses occur from the loss of consumer confidence in a recession. Given the nature of our product — "the necessities of modern 20th century life" — we are somewhat insulated from even that. Yacht brokers and fur coat sellers will really cry the blues if the recession lasts. People still need beds and sofas, although they may make do with crummy ones a bit longer in hard times.

Suppliers should increase and wholesale prices should get very interesting. I might wish that some new players in the financial markets with money to loan would find rent-to-own and relieve some industry debt pressure, but for the moment, I have no hard facts to report. Employees expect company belt-tightening during lean times, so now is a good time to do some. Smart employees are glad to have steady work and don't moan much if raises aren't what they have been. If you don't have smart employees, there are more of them out there looking for work than there used to be.

I don't see dealers jumping for joy this time around, like I did the last time, but I do see a quiet confidence out there, and if the opportunities present themselves, I expect dealers to take full advantage of them.

PR

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

A common-sense approach to Taxes

WHILE THEY'RE WRAPPING UP THE FIRST QUARTER OF A NEW YEAR, MANY RENT-TO-OWN DEALERS ARE ALSO DREADING AN ANNUAL EVENT THAT LOOMS JUST AHEAD. WE ALL KNOW WHAT APRIL 15 MEANS: UNCLE SAM WANTS OUR MONEY, AND THAT'S WHEN HE SAYS WE HAVE TO PAY.

THE FEDERAL INCOME-TAX FILING DEADLINE HAS LONG STRUCK FEAR IN THE HEARTS OF MANY AMERICANS, INCLUDING THOSE WHO DRAW A PAYCHECK FROM AN EMPLOYER AND THE EMPLOYERS, OR BUSINESS OWNERS, THEMSELVES.

Over and above the major tax issues that concern rent-to-own dealers, such as depreciation of merchandise and installment sale recharacterization, other issues arise which can make the tax filing process more difficult and risky.

Many people spend the first few months of the year combing their offices and homes for scraps of paper that will convince, first, their accountant and, second, the Internal Revenue Service that they really don't owe all of those taxes after all.

The multitude of shoe boxes, manilla envelopes, cigar boxes, desk drawers and other convenient stashes for expenditure documentation have long been the subject of jokes — and rightfully so. For that cash register receipt from K-Mart dated last May suddenly has lost its meaning and we are all hard-pressed to remember tax deduction significance.

It's a little late to do anything about the filing deadline on April 15, 1991, for 1990's taxes, but now's a good time to clean up your act for next year's battle. Through some common sense preparations, you can reduce your potential tax liability. At a minimum, you can file your tax return knowing that your income and deductions are properly documented should a tax audit be in your future.

Here are some suggestions for ways that can prepare you for tax filing:

Don't mix business and personal funds

Don't reach into the cash box to get money for your three-martini lunch. Regardless of the accounting treatment of such practices, the IRS gets very suspicious of undocumented cash transfers from business to owner. Avoid having the business pay your personal bills, even if you intend to reimburse for them. Avoid paying company expenses with personal funds. But, if you must, completely document all requests for reimbursement with receipts and explanations of the business purpose of the expenditure.

A good, safe attitude to take is to impose the same rules for these transactions upon yourself that you insist on from your employees.

Document the use of company vehicles

The IRS has tightened up the rules governing use of company vehicles. No longer will they blindly accept the fact that your new Jaguar XJ6 is used for the delivery of refrigerators and running delinquent accounts. Personal use of company vehicles is one of the first things that will be questioned in an audit by an IRS agent. Personal use isn't just taking vacations or other personal trips. It also includes commuting to and from your office or store

CONTINUED ON PAGE 22

•••••

BY

TED WILSON

APRIL 15

T-DAY



and home each day; or driving from your office to the golf course after work. If your spouse or other family member drives a company vehicle, their business use of that vehicle must be documented fully.

Certain key employees who use a company vehicle for business purposes fall under the same rules. If in fact that employee has very little business use of the vehicle, the tax code requires that same arrangement be made to reimburse the company for personal use of the vehicle. In short, even though many IRS auditors are not necessarily rocket scientists, few are so naive to believe that company automobiles, driven by principals, their family members or key employees, do not have at least some personal use.

You should avoid the temptation to be greedy in this area, and report some personal use of your company vehicles unless the vehicle is used solely for company business and parked at your place of business. (Even these vehicles can have personal usage, however. For example, if an employee takes the company delivery van to McDonald's to buy lunch, that's considered personal use.)

The best way to document business usage is to have each company vehicle driver maintain a vehicle log which tracks the amount of business usage on that vehicle. This not only collects valuable information, but shows the IRS that you are sensitive to record-keeping requirements.

Avoid using company personnel for personal work

It may seem harmless to ask your delivery man to stop by the dry cleaners to pick up your tuxedo, but this can create tax problems for you in the future. A rigorous tax audit that uncovers such practices might charge that you, by using the company's employee for personal reasons, have taken additional income (resources) from the company and failed to report it on your personal tax return.

One disgruntled ex-employee can trigger an audit on your company and personal returns and cost you a lot of

A good habit to adopt is to document the business purpose of each expenditure when it occurs. Use a credit card receipt to jot down the persons involved and the business purpose, or make entries in a daily diary. This may seem like chicken feed to you now but, believe me, these numbers can add up in a hurry.

time and money in his quest for revenge. It's perfectly okay for you to contract independently with an employee to do such things, but you should pay the employee separately out of personal funds.

Completely document office-at-home expenses

This item used to be a great tax deduction for outside sales people and anyone else who used their home for any business purpose. But after years of abuse, the IRS cracked down on the use of a portion of a personal residence for business purposes. The rules governing deductibility are pretty well spelled out and well audited. If you cannot avoid the use of your home for business, then keep excellent records and follow the IRS rules of deductibility. Your tax accountant can advise you on what is required.

Avoid personal use of company merchandise

It used to be quite common for rent-to-own dealers to fill their homes with "loaners" of high-end rental merchandise. The reasons for doing this were quite varied and colorful, but difficult to document. From calling them "demonstration units" to "for product evaluation," this practice can give rise to income tax exposure at rental value to anyone using the merchandise. Some good arguments can be made to the contrary, but be careful not to fall into this seemingly innocent trap.

Watch business travel costs

Another common pitfall is the documentation of business travel. Sure, the gourmet dinner you had while attending last year's APRO convention is at least partially tax de-

ductible, but your spouse, who is a school teacher, was also there. If you can't prove the business purpose of her attendance, then her portion would not be considered deductible. Her incremental cost of airfare and room would also be excluded. And if you and I spent an evening getting sloshed at the local watering hole, and you picked up the tab (hopefully), then you'd better be able to at least state that we discussed rent-to-own instead of golf.

A good habit to adopt is to document the business purpose of each expenditure when it occurs. Use a credit card receipt to jot down the persons involved and business purpose, or make entries in a daily diary. This may seem like chicken feed to you now but, believe me, these numbers can add up in a hurry. After several months it's really difficult to remember who was there and what was discussed.

Remember: Almost anything you can spend money on while traveling can be deductible if you document it properly. Be smart and do it right.

Above all, use common sense

The above items are only a few of the things to look at when doing tax planning. Notice the key word is planning. You wouldn't dream of just letting your customers pay you when they wish. Instead, you have a plan which incorporates a program for collection efforts. You don't let vendors select the merchandise you purchase; you have a plan for buying and marketing the proper product for your business. So why would you let income taxes — which can cost you a third of your profits — go without a planned strategy? It doesn't make much sense.

The most important step to take in

beginning your tax planning is to secure the help of a competent professional. The tax laws are complex and ever-changing, and you can better spend your time renting televisions and microwave ovens than studying tax law. The word "competent" above is also important.

Tax preparation services such as H & R Block and others perform a fine service, at low cost, for many individuals and small businesses. However, the delicate nature of our industry requires a more highly trained professional that's well versed in all phases of business taxation. Find a tax professional who you can talk to frankly and honestly, and don't try to hide anything from him. If he doesn't know the real facts about your business, he can't advise you adequately.

Most tax professionals I know are fairly flexible in their interpretation of the tax laws. They can advise you on how to accomplish pretty much what you want and still remain within the scope of the law.

Sometimes, however, you run into a stodgy, died-in-the-wool accountant who does not recognize any shades of gray in the tax code and refuses to "let" you do some of the things you want to do. If this happens, I can only remind you that you're the boss; he is the employee.

If you believe your tax accountant is being unreasonably restrictive, then you should shop around for a new adviser who can work with you a little better. Firing your old adviser and hiring a new one doesn't produce any negative reaction from the IRS — as long as your new tax accountant has proper credentials.

Planning your tax destiny will not only save you money in the long run, it will also greatly contribute to your peace of mind.

PR

Ted Wilson is APRO's president and Alrenco vice president in charge of finance and administration. He has been an APRO board member for more than five years, and has served on the executive committee three years — the last two as its chief officer and chairman of the board. A slightly different version of this story appeared in the March issue of RTO Network News.

APRO leaders tackle rent-to-own tax issues

At the first meeting of the APRO Tax and Accounting Committee, conducted in the late spring of 1990, CPAs, chief financial officers and accountants from rental companies all across the country met to discuss issues of common concern.

Group members of the association's ad-hoc committee began by identifying all the possible types of tax issues for rent-to-own companies. The committee identified the following categories of tax issues:

- **Federal income tax issues — S-Corp vs. C-Corp.** Which is the best corporate structure for a typical RTO company? What is the most acceptable depreciation/inventory write-down method for rental dealers for federal income tax purposes? To what extent do passive income rules concerning rental income affect RTO taxation at the federal level?
- **State income tax.** Committee members reported few instances of identified state tax problems.
- **Local income tax.** How are companies taxed at the local level? To what extent do local enterprise zones, minority business tax advantage programs, local development tax programs, and the like, affect RTO companies?
- **State sales tax.** How much should rental dealers be paying in state sales tax? What items charged by rental dealers are taxable? Committee members immediately learned that this is an enormous problem facing many rental companies whose leaders are uncertain about the taxability of "other fees and charges" on their rental agreements.
- **County sales tax.** The same issues and interpretations exist at the county sales tax level as at the state sales tax level.
- **City tax.** The same issues exist at this level as at the county and state level.
- **Inventory/use tax.** What states are charging this tax? How can dealers avoid double taxation? Are there states where dealers have an option between paying the inven-

tory/use tax or collecting sales tax from the customer?

- **County and state property tax issues.** Where are dealers being charged ad valorem taxes for units in the field? How are values determined? How can dealers negotiate with tax assessors concerning appraisals for previous years?
- **School district property tax.** Where are dealers being charged this tax on the value of their inventory?
- **Water district property tax.** How do dealers keep track of all the business and occupational taxes their companies are supposed to be paying when they do multi-state business?
- **Payroll taxes.** What systems are dealers using to ensure compliance with payroll tax laws?
- **Franchise taxes.** How are dealers staying current with the latest changes in franchise tax?
- **Deferred taxes.**
- **Taxation on fringe benefits.**

Committee members went on to narrow this list slightly, concluding that the association should only attempt to deal with RTO-specific taxation issues. That would exclude, for example, employee classifications for payroll taxes and labor laws, generally, since those rules apply to employers across the board.

The argument can be made that classifications within the rent-to-own industry are unique and have payroll tax and other consequences. Nonetheless, committee members decided that, for the time being at least, there are sufficient rent-to-own issues that need attention.

Part of the committee's purpose is to identify important tax issues for dealers who otherwise might not be aware of the exposure until they get audited.

In the future, the APRO committee, chaired by Wayne Chambers, will seek definitive answers to the troublesome RTO tax questions — and tell dealers what it has found. Finally, the committee may seek to change unsatisfactory answers through legislation or litigation when taxation problems threaten the industry as a whole.

— *Ed Winn, APRO legal counsel*

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APRO'S 1988 CONVENTION IN LAS VEGAS DREW 1,250 RENT-TO-OWN DEALERS EAGER TO DO BUSINESS AND HAVE FUN. BOTH MEMBERS AND SUPPLIERS TRADITIONALLY LOOK FORWARD TO VEGAS CONVENTIONS, AND EXHIBITORS BELIEVE LAS VEGAS PROVIDES THE RIGHT ATMOSPHERE FOR DOING BUSINESS DURING THE DAY AND HAVING ONE HECK OF A GOOD TIME AT NIGHT.

Las Vegas has come a long way from the miners' tent town it was at the turn of the century. Named "The Meadows" by early Spanish explorers who discovered this desert oasis, Las Vegas began to grow significantly after a new Union Pacific Railroad depot was established there in 1905.

Although the Nevada state legislature legalized gaming in 1931, it was not until Bugsy Siegel built the Flamingo Hotel on the Strip in 1946 that the metamorphosis from desert oasis to international entertainment capital really began. Caesars Palace, the first megahotel with more than 1,000 rooms, was built in 1966, and Vegas hotels have been trying to outdo each other in glamour and glitz ever since.

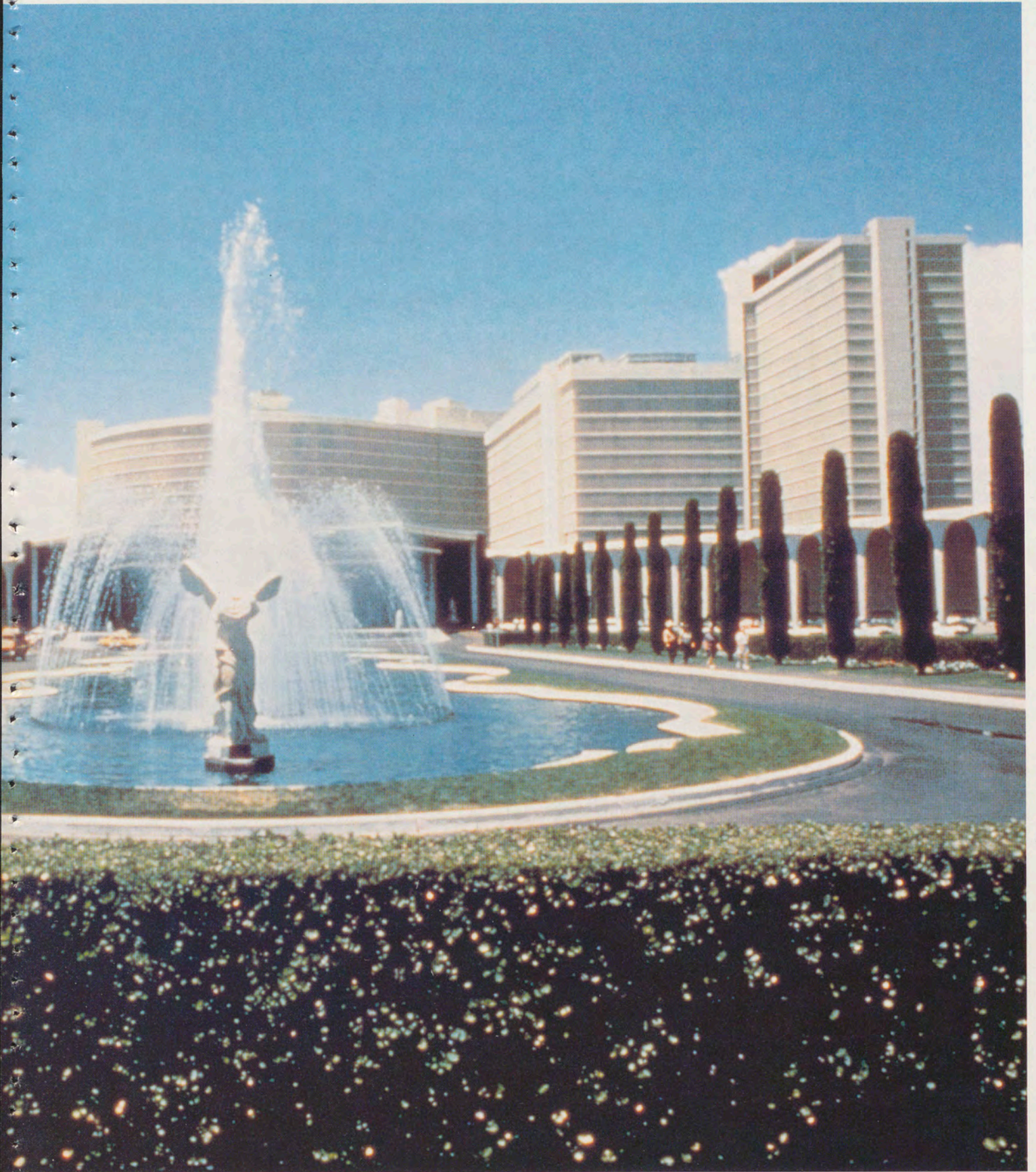
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BY

BARBARA C. STOOKSBERRY

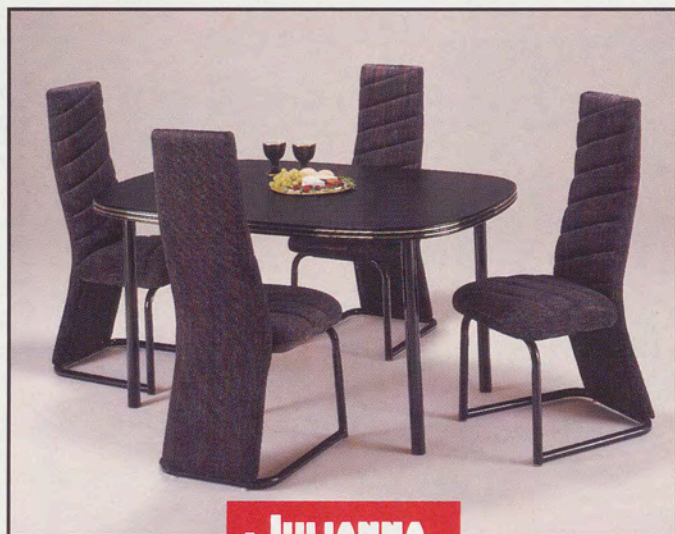


Caesars Palace in Las Vegas is the site of APRO's 1991 annual convention and trade show, set for Aug. 11-15.

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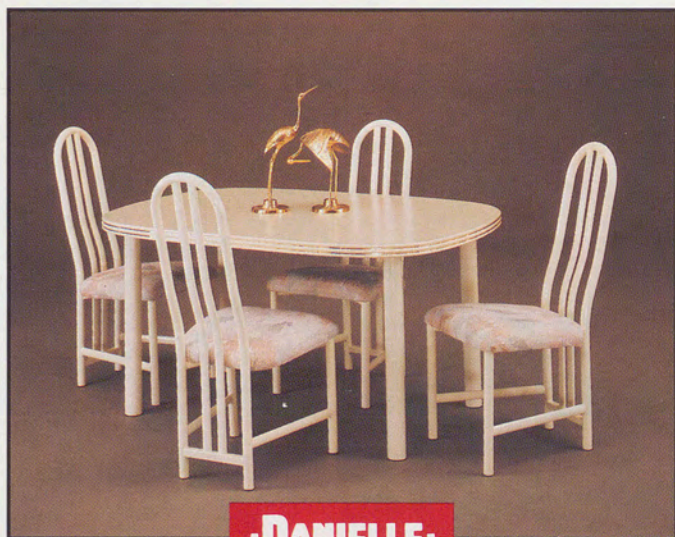
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Continued from page 26

Meet you at the palace

For convenience and accessibility, all 1991 APRO convention activities will be held under one roof. Ah, but what a roof it is! Caesar's Palace houses 1,500 recently refurbished rooms; 130,000 square feet of meeting and convention space; six gourmet restaurants, a cafe, a snack bar and a food court; three lounges; a full-service health spa, beauty salon and barber shop; shopping complex; international sports arena and Circus Olympiad Race and Sports Book for live action via satellite; Circus Maximus Showroom and Omnimax movie theater; and three lavish casinos with the most popular games and liberal slot machine payoffs.

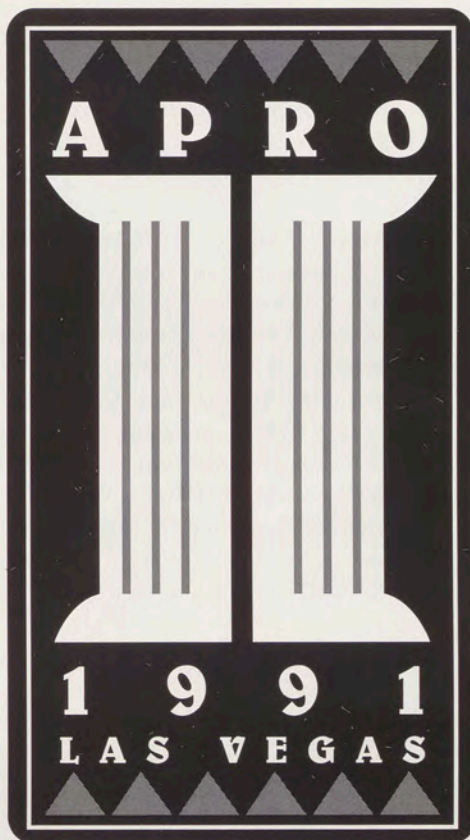
Many sleeping rooms feature veiled beds with mirrored ceilings, a la "Rainman," and elaborate baths with Roman tubs, spas and saunas. Outside, you'll find well-manicured courtyards, tennis courts and two full-size swimming pools. The elegance and grace of Caesars don't begin and end with marble statuary, fountains and plush furnishings, however. You'll be treated like royalty, because pampered personal service is the order of the day there.

What's to do?

Though it might be tempting to luxuriate all day in your hotel room, you'll want to get out and see what's doing. Among favorite Vegas pastimes are shopping, eating, gambling and watching the stars. At hundreds of elegant boutiques and at three major shopping malls, you can find everything from priceless jewels and elegant evening gowns to souvenir T-shirts.

You can eat at the mall or at myriad other Las Vegas restaurants of every description. Whether you want to dine in elegance or grab a burger on the run, you can spend as little or as much for food as you wish in Las Vegas. Dining deals — full breakfasts for 59 cents (that's right; it's no typo) and chuck wagon buffets at bargain prices — abound in Las Vegas, but so does haute cuisine in elegant surroundings.

For your gambling venue, choose



the still-part-of-the-Old-West downtown scene or the glamour-as-you've-never-known-it Vegas Strip. Your gambling options run from nickel slot machines to high-stakes baccarat and from tiny, nondescript gambling parlors in strip shopping centers to glitzy hotel casinos.

Entertainment options also run the gamut. Some Strip hotels offer spectacular song and dance shows — the long-running Folies Bergere at the Tropicana or the Lido de Paris at the Stardust, as examples. Others showcase such big-name talent as Julio Iglesias, Joan Rivers, Liza Minnelli, Wayne Newton and Rodney Dangerfield. In addition, you can see well-knowns and lesser knowns in dozens of lounge acts, usually at no charge.

Boom town, again

Once again, Las Vegas finds itself a veritable boom town. Population growth in recent years has been phenomenal, with development on the Strip spawning a need for workers in construction and service industries.

Two recently opened resort com-

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ON



IT!

plexes, The Mirage and Excalibur, exemplify a trend in Las Vegas toward more family-oriented entertainment. From its inception, Vegas has peddled its wares to an adult audience, paying little heed to the under-21 crowd. One good reason for this is the legal ban on minors on the gaming floors. Heretofore, nods in the direction of family groups have been minimal. Circus Circus's mezzanine-level youth arcade is an exception. Excalibur and Mirage, however, are multiattraction resorts with plenty for guests of all ages.

Although these resorts are part of a concerted effort to paint Las Vegas as an American family playground, other attractions have been there all along.

In and around the city

In addition to the artificial sights and delights created for the Las Vegas visitor, the city has much more to offer by virtue of its geography, mushrooming population and active interest in promoting tourism.

Those who come before the convention begins or who stay after, or

CONTINUED ON NEXT PAGE

Continued from previous page

family members with daytime hours to fill, have a wide variety of adventures from which to choose. Here's a brief look at just a few.

The ultimate side trip, of course, is a jaunt to the Grand Canyon. One-day, round-trip flights from Las Vegas take you for an intimate view of the world's most spectacular hole in the ground. Dipping below the canyon rim for a closeup of nature's colorful handiwork is at once thrilling and humbling. One-day trips allow you time to dine at the rustic El Tovar Hotel or other eateries, take a short mule ride down into the canyon, or shop for Indian crafts at shops operated by the National Park Service.

Forty miles northwest of Las Vegas is Toyabe National Forest. Surrounded by mountains, the forest boasts temperatures as much as 30 degrees cooler than the city's. Mount Charleston and its lesser counterparts provide breathtaking scenery and a opportunity to eat at Charleston Park restaurant or

picnic at one of the many tables at nearby campgrounds. Wrap up the adventure by visiting a nearby ghost town or by exploring one of the many caves where bandits of the Old West hid out.

Hoover Dam is a 25-mile drive southeast of the city. Built in 1935 as a power-generating plant, Hoover Dam's most noteworthy byproduct is Lake Mead, the largest man-made body of water in the United States.

Once back in the city the list of things to do and places to go is long and varied: the Liberace Showbiz Museum, Imperial Palace Auto Collection for old and classic cars, Nevada State Museum and Historical Society, and Scandia Family Fun Center, to name a few.

No matter what kind of itinerary you put together, the 1991 Las Vegas convention is sure to be a winner. You can bet on it!

PR

Barbara C. Stooksberry is a freelance writer, Las Vegas visitor and regular contributor to Progressive Rentals.

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APRO 1991 convention schedule Aug. 11-15 Las Vegas

•••••

(All events at Caesars Palace, unless otherwise noted.)

SATURDAY, AUGUST 10

- Attendees arrive early to tour on their own
- Noon-6 p.m., **Registration**

SUNDAY, AUGUST 11

- 7 a.m., **Golf Tournament** — Course to be announced (sponsored by Whirlpool Corp.)
- 8 a.m.-10 p.m., **Exhibitor setup**
- Noon-7 p.m., **Registration**
- 5 -5:30 p.m., **New attendee orientation**
- 7-9 p.m., **Welcome Cocktail Reception** — "It's A Hat Party!"

MONDAY, AUGUST 12

- 8 a.m.-5 p.m., **Registration**
- 8-9 a.m., **APRO members pick up ballots** for board elections
- 9 a.m., **Spouse Program & Continental Breakfast**
- 9-10:30 a.m., **General Session & Business Meeting**
- 10:30 a.m.-noon, **Government Relations**
- 11:15 a.m., **Exhibitor orientation**
- Noon — **Exhibit Hall Ribbon Cutting Ceremony**
- Noon-4:30 p.m., **Exhibit hall opens**
- Noon-1:30 p.m., **Cash lunch**
- 7-9 p.m., **Gala Cocktail Reception** — "Back to the 50's Party"

TUESDAY, AUGUST 13

- 8 a.m.-5 p.m., **Registration**
- 8-9 a.m., **State Presidents' Breakfast** (sponsored by Voyager Insurance Companies)
- 9-10:30 a.m., **Cash Continental Breakfast** — Exhibit Hall
- 9 a.m.-1 p.m., **Exhibit Hall Opens**
- 11 a.m.-12:30 p.m., **Cash Lunch**
- 1-6 p.m., **Seminars**
- Evening — On your own

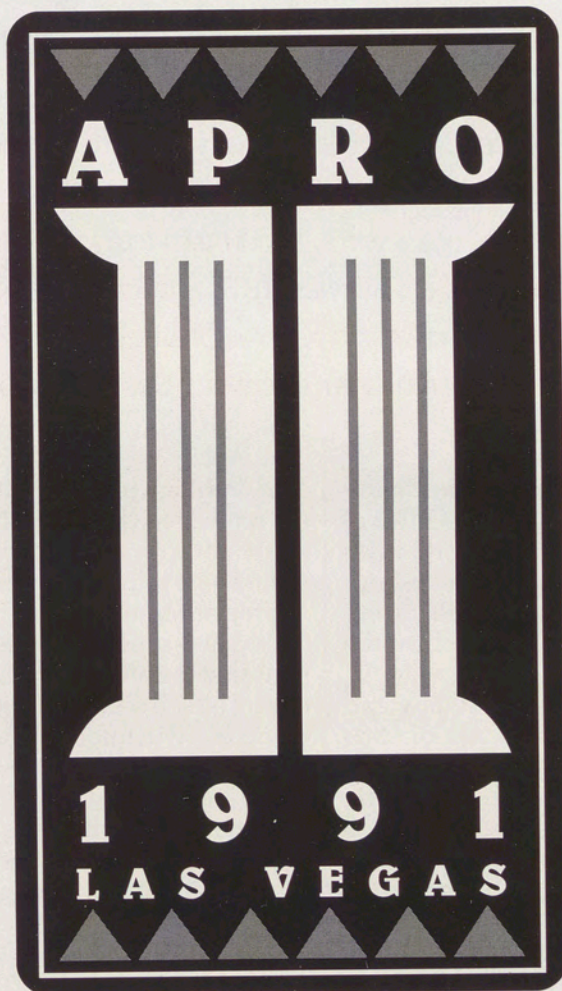
WEDNESDAY, AUGUST 14

- 8 a.m.-5 p.m., **Registration**
- 8 a.m.-1 p.m., **Seminars**
- 9 a.m.-2 p.m., **Spouse Program**
- 1-5 p.m., **Exhibit Hall**
- 1-2 p.m., **Cash Lunch**
- 7-8 p.m., **Reception** (sponsored by Thomson Consumer Electronics)
- 8 p.m.-Midnight, **Awards Banquet & Dance** — "Puttin' on the Ritz"

THURSDAY, AUGUST 15

- 8 a.m.-4 p.m., **Exhibitor teardown**
- 10 a.m.-noon, **Full board meeting**

.....
**Convention fun in '91: Mark your calendar for
Aug. 11-15**



BET



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IT!

at

Caesars Palace

(APRO members: Look for your convention registration packet in the mail this spring. Non-members and anyone who needs more information: Call 512-794-0095.)

.....

How one
industry
challenged
the ...

IRS regs

THE CHANGES IN TAX LAWS DURING THE 1980s, PARTICULARLY IN THE TAX REFORM ACT OF 1986, HAVE BEEN CHALLENGING FOR COMPANIES BOTH LARGE AND SMALL IN THE UNITED STATES.

ALL COMPANIES WITH TANGIBLE ASSETS, WHICH HAD GROWN USED TO ESTIMATED USEFUL LIVES IN INTERNAL REVENUE SERVICE (IRS) REGULATIONS AND A VARIETY OF DEPRECIATION OPTIONS, HAD TO LEARN TO ACCOMMODATE THE SIGNIFICANT CHANGES REQUIRED UNDER THE ACCELERATED COST RECOVERY SYSTEM (ACRS).

Treasury promptly created the Depreciation Analysis Division of the Office of Tax Analysis. No sooner had ACRS rules been digested than Congress came forth with *Modified* Accelerated Cost Recovery System (MACRS) to further confuse the issue.

On top of the changes in the law and regulations, the Tax Reform Act of 1986 required the Treasury to establish an office to study the depreciation of depreciable assets and, when appropriate, to modify class lives as suggested in ACRS. No sooner was the office established, than its authority to change class lives was abolished in the Tax Act of 1988. The office still exists, but its authority has been reduced to one of studying depreciation issues and reporting its findings to Congress.

To date, the office has issued *one* report which happens to concern the depreciation of clothing held for rental. The reason for this report? When ACRS was enacted, tuxedos were classified as assets having a class life of nine years and a depreciation period of five years. The tuxedo rental industry howled, one might suppose, loudly. Obviously, it was effective because the office responded with its first and only study.

During the period between the tuxedo industry's request and the issuance of the report in August of 1989, several televi-

sion, appliance and furniture rental dealers requested that the office undertake a study of how they do business to give them some relief from the same five-year depreciation method.

Treasury's response was noncommittal. Now that the office has lost its authority to alter class lives, it remains to be seen whether it will undertake any more reports in as much detail as the one on the tuxedo-rental industry.

The study itself offers interesting insights into one segment of the overall rental industry. More importantly, it may offer insights into how regulators think about depreciation, and their attitudes might well have an impact on rent-to-own.

Treasury's office surveyed the tuxedo-rental industry, excluding rental uniforms and other rented garments, at the insistence of the Textile Rental Service Association of America (this industry expenses its rental clothing).

The focus of the study is the life in inventory of rental tuxedos and, during that life, how many times tuxedos were rented. Interestingly, the office surveyed 307 companies but only got 38 responses concerning turns on tuxedos — a 12 percent sample. The office acknowledged the possible bias of such a sample, but accepted the data collected from the 12-percent response as an accurate indicator

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BY

ED WINN III

The study itself offers interesting insights into one segment of the overall industry. More importantly, it may offer insights into how regulators think about depreciation, and their attitudes might well have an impact on rent-to-own. Treasury's office surveyed the tuxedo-rental industry.

of industry practices.

Within the tuxedo-rental industry, depreciation ranged from one year to seven years. Based on survey data, the office determined that the useful life of a tuxedo style begins when the tuxedos are taken into inventory and ends in the last fiscal year for which rental income of that style is reported. More than 90 percent of the styles had a useful life between three and five years. The office found that the weighted average useful life is 3.7 years.

The office went on to consider an alternative method of assessing useful economic life which approximates income forecasting. The office concluded that this analysis was appropriate because the income from tuxedo rentals was easily calculable. This methodology was labeled by the office as the "productivity method." Using the formulas developed by various economists, the office determined that the equivalent economic life using this method is 3.3 years — slightly less than the weighted average life.

The office went on to determine the equivalent economic life of tuxedos under the Alternate Depreciation System (ADS), which generates depreciation allowances with present values equal to the average present values of economic depreciation. The office concluded that, if a separate asset class of tuxedos were established, a two-year life span would be appropriate.

But the office cautioned against dividing classes too much. "Treasury is concerned, however, that if Congress were to continually subdivide existing asset classes so that those assets that happen to have somewhat shorter (or longer) class lives than the average for all assets in that class were placed in separate subclasses, the resulting asset classification system would soon become far too complex," reads a pas-

sage of the report.

The details of the tuxedo-rental industry bear little resemblance to the TV, appliance and furniture rental industry. Economic lives of tuxedos have nothing to do with the economic lives of the products RTO dealers rent to their customers. Nonetheless, rent-to-own dealers should note the importance of this study because it is the only one Treasury has ever published that deals with a rental industry, and the study found that the required depreciation method bears little resemblance to economic reality.

The point of depreciation in the tax code is to allow businesses to match revenues to expenses accurately. It's been the RTO industry's position for some time that the ACRS and MACRS methods, which require dealers to depreciate their rental inventory over five years, fails to do that. This study

supports that conclusion, albeit for a different industry. The report states:

"Treasury believes that when, as in the present case, adequate information is available to reliably estimate the decline in economic value with age of the asset studied, such information should be used to determine the asset's class life."

While "adequate information" remains an issue in the RTO industry, it's a problem that's being solved by companies internally and by the association, on behalf of the industry, with statistical surveys and accurate internal accounting concerning keep rates, turns, etc.

The RTO industry can and, arguably, should work to develop an accurate equivalent economic life of different categories of assets being rented under the rent-to-own umbrella. This kind of information could then be used by dealers in the event of an IRS audit attacking various depreciation methods which are more aggressive than those allowed under MACRS.

Copies of the complete 54-page tuxedo-rental report are available on request from the APRO office. **PR**

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

Depreciation method used for financial accounting purposes cross-classified by service life used

| Life in months | Number of firms using depreciation method and life | | | | | |
|-------------------------|--|------------------------|---------------------|---------------|-------------------|--------------------|
| | Double declining balance | 150% declining balance | Sum of years digits | Straight line | All other methods | Total, all methods |
| 12 | - | - | 1 | 1 | - | 2 |
| 20 | - | - | - | 1 | - | 1 |
| 36 | 6 | 1 | - | 15 | 5 | 27 |
| 44 | 1 | - | - | - | - | 1 |
| 48 | - | 1 | - | 1 | 1 | 3 |
| 50 | 1 | - | - | - | - | 1 |
| 60 | 4 | - | 1 | 10 | 2 | 17 |
| 84 | 5 | - | - | - | - | 5 |
| Total, all lives | 17 | 2 | 2 | 28 | 8 | 57 |

This chart shows various depreciation methods used by tuxedo-rental firms, based on a survey conducted by the Textile Rental Service Association of America. Survey information was used in a U.S. Treasury study on depreciation.

Jim Meyer/Southwest Creative Group

Computers help RTO dealers at tax time

Taxes are an inescapable part of life, and the subject seems to only get more complicated. This is especially true for business owners who find themselves grappling with near-constant changes in tax codes and rulings.

Because rent-to-own is a transaction- and inventory-intensive business, RTO owners have it even tougher than many of their counterparts in other industries.

Computers — specifically, specialized software packages — have enabled RTO dealers to track their complex operations and maintain accurate records, which helps their accountants when tax time rolls around.

In an effort to fairly showcase the strengths of various computer vendors serving the rent-to-own market, we presented them with a common list of questions. These questions were



designed to demonstrate how well-designed software packages help RTO dealers with their tax issues.

Participating vendors, in alphabetical order: CMAX, High Touch, Ideal Software and Rental & Sales Software Systems (RSSS). Here are the tax-related questions and each company's answers. But don't hesitate to call

them if you have specific questions about their product or your problems. CMAX: (800)322-2629. High Touch: (800)326-6059. Ideal Software: (601)693-1673. RSSS: (800)334-5224.

— Editor

Question

The amount of depreciation a rental dealer can use as an expense figure when he computes his income tax is very important. How does your software handle periodic costing of inventory in each location?

Answers

High Touch: *Inventory cost and depreciation for both book and tax purposes is performed on the home-office computer only, since that is where the inventory purchase cycle is controlled. As a side benefit, it also provides for company-wide reporting.*

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Depreciation is calculated at the unit level and summarized by product, location and company wide.

Ideal Software: Our system tracks each item in each store separately. It knows at all times where each item is and up-to-the-minute information concerning cost, date of stock, accumulated income, etc. Having this information available, we can compute whatever figures are needed for depreciation information. This information can be obtained from each location by the home office.

CMAX: The RMAX database allows for detailed tracking of each rental unit at every location within a multi-store and multi-company organization. Depreciation processing computes month-to-date, year-to-date and accumulated depreciation for each unit in the system. This then automatically transfers to the Integrated Accounting System, by location, for inclusion on financial reports. All depreciation and writeoffs are posted in the month of occurrence in a real-time fashion. Depreciation may be based on purchase date or date of first rental.

RSSS: Depreciation can be calculated by store or by company. Depreciation can be calculated by classifications that have different life cycles. The RSSS program prints a report indicating the depreciation to be taken each monthly or yearly period for interfacing with the general ledger. A report for any period is available for audit indicating cost, depreciation to date and the book value for the date the report is requested for.

Question

What methods of inventory costing can you handle, and how?

Answers

High Touch: We provide two methods of calculating depreciation (or periodic inventory costing) — straight line and income forecast. Either method may be used for book or tax purposes. With straight line, the user can create up to four different straight-line schedules to allow for a variety of calculation and reporting needs. Within each schedule, depreciation lives may vary by product category. Our income-forecast method calculates depreciation based on rental income collected instead of a specific life. This results in depreciation expense that corresponds more closely to actual

income.

Ideal Software: We do not force our customers to use any particular method or length of time for their depreciation. Not only is there no mandate for rent-to-own stores concerning the "right" method for depreciation, but we have found a very large variety of methods and variations being used by our customers. Rather than telling them how to run their business, we let them (or their accountant) tell us what method they already have set up or would like to use. We then provide them with a module that will calculate depreciation according to the method they have established or one they wish to establish. We may already have a module available to handle their method, but if not we will customize one to fit their needs. Some of the methods most commonly used in the past include ACRS, MACRS, straight line and income forecasting.

CMAX: RMAX users are generally using straight-line depreciation with the most aggressive time frame their database can support. It's very, very

important to be able to back up your claims of actual equipment life with detailed statistics from your database. With the RMAX database, you can easily determine the average life of any product or family of products you market to your customer base. Once this information can be documented, a more aggressive posture may be taken before the IRS. Each merchandise class can have a different merchandise life associated with it.

RSSS: RSSS software will conform to any IRS guideline. Most dealers use straight line. The RSSS software will calculate depreciation on any number of months for straight-line depreciation. Depreciation can start the day each piece of inventory is received or the first day each item is rented. Many stores use a straight-line method that starts the depreciation the first time an item is rented or will start the depreciation cycle if the item is not rented within 90 days after receipt. This reduces the amount of depreciation expense in the

CONTINUED ON PAGE 43



RTO IN EASTERN EUROPE?

Due to the rapid democratization of Eastern Europe, an exciting opportunity exists for a candidate with impeccable credentials. We are currently searching for an individual to serve as our administrative representative in Europe. The successful individual should have executive level management experience and a background in multi-store development and operation. If you have not forgotten how to work hard and smart, we would like to talk to you. Rogers Capital International, Inc. and McKenzie Development Corporation are finalizing plans to open the first stores immediately. All applications will be handled with strict confidence. If you are interested in this exceptional opportunity, please send your resume to:

Rogers Capital International, Inc.

P.O. Box 24727 · 611 Commerce Street, Suite 3030
Nashville, TN 37202-4727

Attn: C.T. Stevens



Tax time

Now that
it's here,
don't despair

WELL, IT'S TAX TIME AGAIN! AND WHETHER YOU HAPPEN TO BE A LINE EMPLOYEE OR JUST A VICE PRESIDENT OF YOUR COMPANY, HERE ARE SOME THINGS YOU SHOULD KNOW ABOUT RENT-TO-OWN TAX PLANNING THAT YOU PROBABLY WON'T FIND ELSEWHERE.

• • • • •

This is the real stuff, the straight skinny, the inside dope.

Let's begin with two new rulings. The first is the Pete Rose Rule. This provision deals with high-stakes gambling on the three major sports — baseball, poker and rent-to-own. The gist of it is that you cannot deduct your losses unless you report your winnings, and all phone bills will be audited.

If you're having problems with your lender, the Jim and Tammy Rule may apply: If it isn't really yours and you're only using it, then obviously no taxes are owed.

One area that can trip up even the shrewdest operator is inventory depreciation. Of course, some of us know it's not really depreciation (see "*Jim and Tammy Rule*"). Whatever we call it, this "adjustment for bottomless decline in value of inventory" must be handled carefully. Some CPAs now doing community-service work can attest to that. The key thing to remember is, whenever you find your monthly inventory depreciation exceeding the amount of debt owed against the company, you've probably miscalculated somewhere. Or you haven't been in rent-to-own nearly long enough.

Some people depreciate inventory only as it produces revenue. That generally works quite well, but some have reported a few problems. Those typically have been dealers who want to base any recapture on the average Saturday closeouts in

January. This doesn't work.

Many dealers who have bought and sold rental stores during the last 12 months may face unique problems. For example, what to do with the employee who hasn't visibly moved since you bought the business? Is he considered a leasehold fixture or just equipment? Hard to say unless you've clearly defined this in your purchase agreement. A related issue that always stirs debate is the real value of goodwill and other items such as typewriters, signs, handtrucks and screwdrivers. We called the tax accounting firm of Cheate, Wheedle and Begg for an opinion on "goodwill." They believe goodwill may be depreciated only if it can be tangibly evidenced. That is, if nobody has lately swept the storefront with automatic-weapons fire and no current felony charges are pending against the old owners. Otherwise, there is little argument for goodwill.

The miscellaneous tools and equipment of the business must be written off over 60 days. This is only reasonable. Show me a store where any of it lasts longer than that and I'll show you a company with not nearly enough deliveries.

Some dealers have begun casting future remaining rents as "receivables." This builds the kind of balance sheets bankers are most accustomed to seeing. While it can offer some nifty advantages in securing new loans on old television sets, this method may also create new problems. For example, how do you charge off and later take as a deduction the amount of future rent you won't collect from a customer who didn't have to pay you and isn't? Our research team is addressing this.

But tax planning isn't important only for executives. For those who toil in the trenches, what follows are some tips on computing the personal taxes that may be owed on those exorbitant salaries looted from various rental companies over the years.

Tip No. 1 is, don't have your taxes prepared by the same guy who worked up the company's bonus plan. The logic here is inescapable.

• • • • •

BY

BUD HOLLADAY

We called the tax accounting firm of Cheate, Wheelde and Begg for an opinion on "goodwill." They believe goodwill may be depreciated only if it can be tangibly evidenced. That is, if nobody has lately swept the storefront with automatic weapons fire ...

Perhaps the most important tax issue for RTO employees is: Do you have to pay taxes on gratuities offered by thankful customers, desperate salesmen and competing rental dealers? Of course. This falls under the same rule covering waiters and Middle East arms dealers.

Some employees who have found themselves working at the same company but under three or four different owners throughout the year may have problems getting their W-2 forms on time. Don't worry. IRS rules offer remedies for withholding forms issued by offshore companies and foreign nations. For example, if your form is printed in Japanese, you have extra time to complete your tax return. If it came from Panama, you may not have to file a return. But check that out.

Middle managers who are on the road 50 weeks out of the year have special problems (we don't mean those). Some items clearly are not tax deductible even though they may be considered legitimate business expenses within some organizations. These include: \$100 tips to truck stop waitresses; quarters lost in defective Magic Fingers beds; lost deposits on motel movie rentals; long-distance toll charges on 900 numbers; and, of course, meals costing more than 89 cents at Denny's.

Unfortunately, some dealers will get hit by the double whammies of divorce and taxation. Whenever possible, each divorce should be planned so as to coincide with store openings. That way, any undeductible losses resulting from the marital split can be offset by the enormous opportunities resulting from expansion. After all, there's not that much difference between alimony and waiver fees. You shouldn't forget the obvious advantages of jewelry rental here, either (again, while the corollary may ex-

ist, don't let sentiment obscure the detail).

For the owner who runs a virtual RTO empire, tax planning can be even more complicated. Those who have sold, traded, bought, closed and opened stores rapidly over the last 12 months may find that locating and accounting for all those buildings and TV sets may be more difficult than first anticipated.

This is where the "Reasonable Doubt Rule" may apply. Here's how it works: If you have reason to doubt a store really exists, you don't have to count it. If, after mailing your tax forms, you discover stores you didn't know you had, those can be included on an amended return provided the managers know who you are, and have recently received checks from you that they've been able to cash.

Any store with more than 800 BOR but with closeouts exceeding 20 percent can be deducted as a casualty loss; stores less than 270 BOR may be either deducted as educational expenses or depreciated over 15 years as undeveloped real estate. Take your pick.

Before doing anything creative with payroll expenses, however, you may want to check with your lender to see how many of your employees they carry as dependents.

Some new rules on company vehicles may affect certain top executives as well as the guy who manages a route. For example, owners of companies having more than 100 employees but less than 5,000 BOR can no longer deduct Cadillacs, Lincolns and Mercedes sedans. The reasoning is simple: Since these companies aren't going anywhere, why do they need expensive cars? However, Yugos used as boat anchors may be deductible provided the fishing trip is business-related and takes place somewhere near water. And vans must now meet strict guidelines established for ve-

hicles used by rental collectors. Urban assault armor is deductible only to the extent it exceeds last year's chargeoffs; bullet-proof glass is not totally deductible (this is a workers' comp issue); built-in beer coolers and wine racks are only 35 percent deductible unless the driver is considered a non-exempt management person.

A significant change from prior years is the new ruling that the cost of any company van driven home by an employee can now be considered medical-related. The logical assumption, of course, is that the owner is brain dead.

And don't forget the potential tax liabilities that may result from unusual expenses and income. For example, dealers collecting club dues from customers cannot deduct the cost of any legal expenses incurred after the customer tries to get drugs through the mail.

And all rental company revenue derived from the sale of accidental death insurance to customers is now taxed at the highest rate if your routeman is the beneficiary. If not, it simply comes in as "one-time revenue." You can figure this out if you really try.

Some in-house accountants or tax lawyers reading this column may question the suggestions offered here. That's only normal. These are the same people who go home every night wondering why they are in the rental business. Well, the answer is simple. Where else can you tell a guy in March that he went out of business in December based on what happened in October — and still have work this summer?

Finally, we realize that some of you may still be confused about rent-to-own and taxes — even after reading the plethora of information here. We're happy to announce that the Internal Revenue Service now has a toll-free number just for rent-to-own dealers. Call 1-800-C-O-N-F-E-S-S.

PR

Bud Holladay is a former rent-to-own dealer whose current title is vice president of employee development with Alrenco. His humor column appears in Progressive Rentals every issue, and Holladay is regarded as the founder of APRO.

Continued from page 13

a training schedule can be created for the individual or position. This not only ensures that the individual learns all aspects of the job and that none are forgotten, but it also shortens training time and increases competence. This technique also identifies performance problems earlier and provides more information for solving them.

While the manager is responsible for training, he or she can use other resources to help. This spreads the task out and allows the employee to learn from those most capable.

Once the individual has undergone initial training and is functioning in the job, the company must have programs in place to continue to upgrade or improve the skills of all employees. In talking to RTO companies, the most successful store managers are those who have set aside a certain time — daily, weekly and monthly — to train employees.

Training takes time and effort, but

the dividends from improving employee skills are enormous.

Setting goals

It's been said: "Without a destination, any road will get you there." Setting goals is essential in any rent-to-own operation. Because of the nature of the business, employees must know what task they are to do and have specific, measurable goals — with deadlines — for the accomplishment of those tasks. For a goal to have the most power, it must be set, tracked and communicated to employees on a regular basis.

Goals are the end results. Activities are the actions undertaken to achieve the goals. Activity targets keep the employee and store on track.

We found that some store managers set very clear goals and very specific activity targets on a monthly, weekly, daily and even an hourly basis. Unfortunately, they may not communicate these goals to the employees. If the employee is not aware of these goals, he has no motivating power and does not perform better.

Helping these managers learn to set goals and communicate them to the employees has improved their store performance. Setting clear, concise goals and activity targets, on a daily basis for each employee, allows the manager to do a better job of controlling and managing the operation.

Communicating

Training and setting goals are only the beginning of developing individual performance. More than 50 percent of the performance problems in business happen because of lack of feedback.

For improvement to happen, employees must receive consistent and regular feedback on how well they're doing. Only when they know how they grade out, what they need to improve and, specifically, how to improve, can they increase their performance and results.

Many managers tend to talk with employees about specific problems or situations. They do not coach the employee to improve his skills and performance. When an employee makes a mistake, he'll probably hear about it. But he should also be told when he does something right. The

employee should get feedback when performance is good as well as bad.

Delegating

To achieve the greatest productivity, the manager must be effective in delegating. Many times store managers are what we call "super doers." These are managers who think that because of their talent, experience and energy, they can do the work of several people. As a result, they don't take the time and effort to develop their employees. Consequently, super doers' subordinates tend to perform at a lower level than they are capable of and eventually experience burnout.

In no business is delegation needed more than in rent-to-own. For a store or any organization to be successful, each employee has to be operating at full capacity.

The question is, "Why don't more managers delegate or empower employees?" In most cases, the answer is that they don't feel confident in the employee's ability to handle certain situations. For delegation to be effective, the manager must have done a good job training and coaching the employee. Only then will the manager feel confident in delegating or empowering.

It's important that managers realize there are degrees or levels of delegation. Many managers believe there's no middle ground between doing it themselves and totally giving it to someone else. Successful managers are those who delegate in stages, gradually increasing employees' responsibilities as they show they are capable.

Evaluating and appraising performance

In many cases, evaluating performance is only done just before the annual performance appraisal. This is too little too late. As we know, this business is fast and is measured in terms of months, weeks, days and even hours. The annual performance appraisal is not sufficient to manage or improve performance.

The RTO companies that get the most from their people are those that provide performance feedback on a consistent basis. This doesn't mean

CONTINUED ON PAGE 40

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communicating only when a mistake is made. Evaluating performance over a period such as a week or a month allows the manager and employee to see exactly how the employee is performing.

The performance of the individual should be measured against preset standards of performance and previous performance levels. This allows the manager to see specifically how the individual is performing compared to standards, goals, level of experience and previous performance. Performance feedback is effective in helping to eliminate the problem of poor performance which seems to drag

out over an extended period of time. Without timely and frequent evaluation and feedback, a manager may feel pressured to give an employee a rating that is less than the employee thinks he deserves.

Performance evaluations on a frequent and regular basis will allow the manager to identify and resolve problems quickly and effectively.

If evaluating performance is done on a frequent basis, the sum of those evaluations compose the appraisal. If the regular performance evaluations are done well, the performance appraisal is much easier for the manager and is more beneficial for the employee.

Most appraisals focus on simply

evaluating the individual's past performance. This is only half the equation. Appraising performance should also focus on the future and include skill development and what the individual must do to be ready to assume a position at the next level.

At least half of the appraisal session should be devoted to the future. Many managers get so caught up in past performance that they fail to realize the great power of the appraisal: To change the future.

Rewarding performance

"What gets rewarded, gets repeated." If this often-repeated phrase is true then managers must recognize positive performance if they want it to continue. This usually involves praising or recognizing the performance, increasing the individual's responsibility, increasing pay and providing promotional incentives or contests.

Praising or recognizing performance is one of the strongest motivators for individuals. Recently I heard someone say, "If I pay them, why do I have to tell them they are doing a good job?" The reason is this: You want to get what you pay for.

Praise comes in many forms. It can be as simple as saying, "You did a great job." Telling peers in a meeting or group how well someone has performed is very powerful. Written praise is even stronger than verbal praise. A handwritten note or letter to someone recognizing their performance is more effective than verbal praise.

If someone makes a mistake, it tends to be noticed quickly. If someone does well, that too should be observed right away.

By increasing the individual's level of responsibility as he performs well, you can ensure that he not only grows as an employee, but he's also capable of handling delegated tasks. If an employee is performing well and will likely move to a more responsible position in the future, the manager should begin by gradually adding responsibilities. This will allow the employee to grow. At the same time, it reduces the possibility that, in moving to a new position, the change will be too drastic and the worker will fail.

CONTINUED ON PAGE 42

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Continued from page 40

Incentive pay is one of the most effective rewards for performances. Companies that tie their bonuses and pay increases to performance obtain a greater result. To be effective, the award needs to be tied directly to a specific performance or behavior that can be repeated. The closer behavior is to the receipt of the reward, the greater the motivating power of the reward.

A strong and consistent program of recognizing excellent performance will produce results in any rent-to-own company. Most organizations recognize a few people, such as store manager of the month. This, however, may not be effective in motivating and rewarding performance.

Recognizing only one employee or group, especially if others believe the criteria does not provide for an equal chance to win, won't motivate or increase performance. Effective programs provide a large number of people the opportunity to achieve and

improve their range of skills.

Because of the unique character of the RTO business, short-term promotions or contests tend to be effective. They can support the overall recognition program and be successful in the process.

The length of a promotion or contest depends on your objectives. Many people think that for a promotion to be successful it has to have large or expensive prizes. This isn't true. The creativity and thought in the development, planning and publicity of the contest determines its success, not the prizes.

Money is most often the worst reward because it is quickly spent and forgotten. The best prizes tend to be items such as a briefcase or a television that are kept by the employee. They remind employees of their past successes. Awards or prizes that are highly visible to the rest of the company, such as plaques and trophies, can also be great motivators.

The prize isn't always the greatest incentive. The excitement of compe-

tion, recognition by peers and pride of accomplishment are often more stimulating.

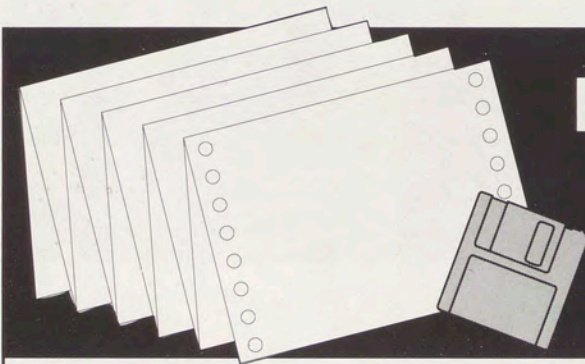
Talent, performance bring profits

By incorporating the above points in your hiring, training and reward programs, you'll spur improved individual and group performance. And that increases bottom-line profits.

Having talented employees who consistently perform at high levels is essential to the success of any rent-to-own organization. The more you are skilled in solving the people puzzle, the better you'll be able to effectively manage those top-flight employees.

PR

Wayne Outlaw is president of MARCON Group, which provides training, consulting and performance-development programs for the rent-to-own industry. Outlaw is a member of the National Speakers Association, and can be reached at (803)884-9361. MARCON's mailing address is P.O. Box 661, Mt. Pleasant, S.C., 29465.



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first 90 days. This will increase the bottom line until the item is rented, but will complete the depreciation within 27 months if the 24-month straight-line method is used.

Question

How does your software handle skips and stolen merchandise so the dealer will get to charge off the full amount of depreciation to reduce his tax liability in each current year?

Answers

High Touch: Our integrated home-office inventory system automatically creates an accounting entry for every charged-off unit that relieves original cost and accumulated depreciation, and books any remaining cost to a user-specified expense account.

Ideal Software: Any merchandise disposed of in a particular month is charged off in that month. This allows the dealer to take the maximum writeoff amount as soon as possible.

CMAX: Skipped and stolen merchandise is written off after exhausting whatever means of collection your organization employs. RMAX automatically makes an accounting entry for written-off merchandise during the month in which the writeoff occurred. Depreciation and writeoffs are handled on a monthly basis in the RMAX system, which minimizes end-of-year research. The accounting entries are already posted.

RSSS: Once an item is declared missing through a skip or by being stolen, the item is marked in the record so that the balance of depreciation will be taken in the month the incident occurs. The exact amount of depreciated cost at that date is marked on the item maintenance record with the date charged off. The balance of the depreciation is indicated separately and added to the depreciation to be expensed in that month.

Question

How does your software handle early buyouts?

Answers

High Touch: A variety of early purchase option formulas are available,

or we will create a custom formula to suit the client's needs. The exact amount required to exercise the customer's early purchase option, as defined by the client's terms, is conveniently provided by the system during the regular rental payment process and in all appropriate reports and inquiry screens. The entry of an early purchase option receipt automatically relieves inventory of the unit sold, deactivates the agreement, records the appropriate income, and provides transactions to the integrated home-office inventory system which relieves original cost and accumulated depreciation and books remaining cost.

Ideal Software: Our system will calculate the early buyout price of any account at any time (even while in the process of taking a payment on the account) using the discount formula the dealer has prescribed. It includes in the price any charges due or partial payments left to pay. A very quick transaction executes the buyout and moves the inventory item out of the active file to the inactive file and writes off the book value as described in the answer to question No. 3.

CMAX: Early buyouts are automatically flagged as such during cash receipt processing. The remaining cost of such items will automatically be written off during the month of the early buyout transaction.

RSSS: Calculations for early buyouts are preset to meet the dealer's needs. An on-screen calculation is available at the time a payment is taken, including the sales tax. If an item is sold as an early buyout before the depreciation cycle is complete, the computer calculates and uses the balance of depreciation not taken on that item in the month the transaction occurs.

Question

Since the inventory on the financial statement reflects the largest asset a rent-to-own dealer has, how often do you recommend he verify the book inventory to the actual inventory so he can charge off missing inventory as it occurs and keep inventory lean to reduce interest expense?

Answers

High Touch: Financial statement inventory figures are automatically

calculated by our system using information from the home-office inventory files. Every month prior to inventory closing, the home-office system performs a unit by unit reconciliation of its inventory files to each store computer's inventory files. Discrepancies, if any, are listed on an exceptions report. This provides a means for demonstrating that financial statements reflect accurately what is recorded at the store level. To verify the store's records, a physical inventory audit should be performed periodically. Tools provided by our in-store system make this task as simple as it can be made. Many of our clients perform an audit of idle inventory daily, and all clients do at least weekly idle audits.

Ideal Software: Our easy-to-use audit sheets allow inventory verification frequently. We recommend some type of verification at least once a week in most stores. Situations vary tremendously as some stores can easily verify each day while others only want to tackle that project once a month. The frequency of audits is somewhat dictated by security concerns. It is a good idea to write off any inventory as soon as it is determined missing to reduce profits shown on the books.

CMAX: This is a CPA-level question, but our opinion is: We have geared RMAX to make this task easy and fast. We recommend that a hard physical reconciliation be made at the minimum of once per month per store. If there appears to be a control problem, then it should be done once a week. RMAX makes this very streamlined.

RSSS: To operate profitably, there are a number of requirements a dealer must follow. He must establish good security and accurate inventory and financial records. The dealer must have a constant reporting system to be sure he can record the exact date and the cost of each item as it is received. He must be able to record this plus the movement of each item from one location to another, and verify that the item is where the computer says it is. Barcoding is available. That way, inventory can be taken with a portable computer, letting you get a printout of missing inventory at each location.

RSSS has buy and merchandise comparison reports to keep inventory lean and mean, reducing interest expense with balanced inventory. **PR**

Continued from page 16

An important point to consider is the illiteracy rate. About 20 percent of Americans are illiterate. These people understand phrases or terms. Keep the words simple. The font, or type, style must be easy for the eye to read. The Roman or Bondoff fonts are two of the easiest to read. Try to stay away from the fancy fonts because they're too hard to comprehend at a glance. Be careful not to over capitalize the words you use. Most ads are not studied, but only glanced at. You want your ad designed for easy reading.

Now it's time to talk flash, or as some people call it, the sizzle. Whether it is a doorhanger, quarter-page ad or a four-page circular, pictures get readers' attention. Pictures, whether they're photos or artwork, can tell the story, and with the right picture you'll get attention. The picture should also get your message or promotion across to your prospective customers.

When I'm producing television commercials, I turn the sound off to see if I still get my message across. The commercial should stand on its own with just the picture. With the illiteracy rate at 20 percent, using pictures to back up your print messages will give you flash and reinforce the promotion.

If the computer software program you use doesn't have the right pictures, don't get frustrated. You can get the pictures you want several different ways. An artist will draw the picture for about \$10 to \$30. The fee will depend on the complexity of the drawing. After receiving the drawing, take it to a desktop publisher for scanning. Desktop publishers have the equipment needed to scan drawings for you. This should not cost you more than \$5 to \$10 for each drawing scanned. The advantage to having this in your software collection is that you can use it many times. Think of it as electronic clip art. You can change it to fit your needs in the ad you are currently working on.

With a modem, you can shop and download pictures, or graphics, by phone. A few companies carry thousands of pictures. One is called the Window Shopper Guide. The average price range is between \$5 and \$30. Call 1-800-669-5612 to check it out.

So far, we've talked about using a certain type of software ... and some basic principles. With this software, I feel comfortable in doing only newsletters, doorhangers and maybe quarter-page ads for your weekly shopper. If you're doing a lot of circulars and want to look professional using your own computer, the cost for the kind of software you'll need is a lot more expensive.

Another place to get drawings is the art supply store. These stores often carry line art. If they do not carry it, their people can tell you where you can find it. The line art is scanned at a desktop publishing shop like the original artwork. Again, be careful to respect copyrights.

Now that you've got the picture telling the story as well as the words, it's time to think of creating urgency. When advertising to the public you want to create the event. The event must have a limited time attached to it — or people don't feel the urgency to attend or act. One good way of adding urgency is to stress something like: "Sale ends Saturday." Another effective promotion is: "Act by Saturday for your free limited offer." One of my favorites is: "Act by Saturday for a free month." You can give your rental customers the free month at the end of the term.

Premiums also can create urgency. Make sure the premiums are not such that the customer tucks them away in the house. The premium's visibility to the customer's friends acts as advertising. Referral advertising is still the best game in town. Everything we have discussed is useful for your circulars and weekly shopper ads, as well as your doorhangers and handouts.

So far, we've talked about using a certain type of software program, such as First Publisher or First Write, and some basic principles. With this software I feel comfortable in doing only newsletters, doorhangers and maybe quarter-page ads for your weekly shopper. If you're doing a lot of circulars and want to look professional using your own computer, the cost for the kind of software you'll need is a lot more expensive. These relatively high-end page layout pro-

grams start at about \$500 and go up to around \$800. This may appear expensive. However, one or two layouts done totally in-house on your computer will usually recover this initial software setup, since you eliminate contract work with specialists such as layout artists or designers.

Extras will always be a part of the computer world. For example, getting a laser printer will help you proof your pieces before sending them off to the printer. It will also enable you to use PostScript, a powerful page-description computer language, and a larger selection of fonts. If you're going to create and foster that professional image, I strongly suggest you get a good laser printer.

Using more sophisticated software means a longer learning period. Have whoever is going to be using the software attend classes. Most classes last one day. The cost runs about \$200. This training will more than pay for itself by saving hours of frustration learning the program.

Let's talk briefly about larger print pieces. The four-page circular has two basic types. These are price in point and generic promotion. Price in point uses specific merchandise as leader specials. Generic promotion uses the promotion and not specific item specials to attract customers' attention.

Doing price-in-point circulars requires time and attention to details — and some fairly high-powered software.

Taking the time to learn basic layout skills, combined with the power and affordability of today's computer systems, will give you the edge needed to stay ahead of your competition.

PR

Randy Buffington is a partner of T. Buff & Son Promotions. He can be reached at 1-800-359-7880.

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.

DON'T GET MAD. YOU GOT EXACTLY WHAT YOU WANTED!

PC's are valuable to keep information on a particular store, but if they are keeping it from your other stores, that's not being organized. RSSS can give you the best solution for sharing information because that is what we do best with ON LINE or Stand Alone PC software. You can have one or hundreds of users with no local area networking (LAN). The multi-tasking RSSS Software offers more per dollar than slower, more expensive networked computer systems. We not only help you get organized, we can tie all your PC's and terminals together so you can retrieve vital information to a central place for combined management information. It's not the hardware that makes this possible, it is the software.

Rental & Sales Software Systems (RSSS) has electronically converted through automatic conversion programs, over 60 stores in

the last quarter from inadequate Rental Software programs to the premier software in the Rent to Own Industry, **RENTAL & SALES SOFTWARE SYSTEMS.**

The RSSS Software is written in a 4th generation language (4 GL) making it possible for us to run on any computer that operates on MS-DOS, XENIX, UNIX, VMS and DX10. There are a total of 20 different Operating Systems that RSSS is compatible with. No other Rent to Own Software vendor can accomplish this. This means you can keep up with the latest computer hardware technology now and in the future. This also assures you that you will never outgrow the RSSS Software and most importantly it protects your present hardware investment.

Let's talk about **REALLY** computerizing your company, **SO YOU CAN GET ORGANIZED.** Over 400 stores throughout the United States and Canada depend on us to miss the important chapters, **CHAPTER 7 AND CHAPTER 11.** It may not be the 11th hour for **YOUR** business, but every day you run your Rental Stores without the proven RSSS Software System in place can cost you needless effort, time and money. **It's a great feeling when you get your business under control.**

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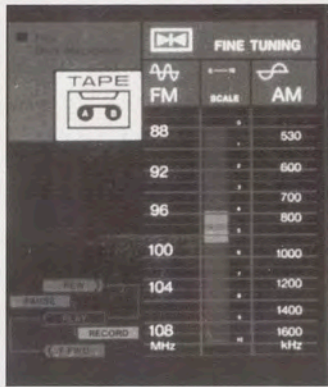
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Vasta joins Fraenkel

John Vasta has been named director of sales, rental division, at Fraenkel Company of Baton Rouge, La., and Memphis, Tenn.

Fraenkel is a furniture manufacturer and distributor.

Before joining Fraenkel, Vasta was vice president and director of sales for Rent-A-Rock, a national sales organization offering wholesale jewelry to the rent-to-own industry.

Vasta is a 15-year veteran in rent-to-own.

Vasta's new position emphasizes development of the rent-to-own market, and he intends to help make Fraenkel Company a major supplier to the RTO industry.

Casino package

Marty Wolf Game Co. of Las Vegas, a manufacturing company since 1970, offers a complete casino party package — "Las Vegas replica" — for display and rental.

The package consists of full-size craps, blackjack and roulette table kits. It also includes professional game layouts, full-size paper patterns, construction manuals, custom trim and all needed supplies and accessories.

The casino party package can be rented or sold for fund-raisers, theme parties or other social functions.

They are shipped UPS

freight, with no crating charge. "How to Deal and Play" videotapes are also available, as well as an "Official Casino Party Manual"

For more information, write: Marty Wolf Game Co., 2120 "G" S. Highland Dr., P.O. Box 1686, Las Vegas, Nev., 89101. Or, phone: (702)385-2963.



Gaming tables for rent.

Owens honored

Steve Owens, former Heisman Trophy winner and founder of FORESIGHT, was among 12 players and three coaches recently named to the National College Football Hall of Fame.

FORESIGHT Rental Maintenance Protection and FORESIGHT Preferred Customer Club are specialized rent-to-own programs marketed through Steve Owens & Associates, a financial services firm based out of Norman, Okla.

The company's newest program packages dealer add-on services such as lease-property insurance, extended warranties, accidental death insurance and unemployment insurance into a single sale.

Owens won college football's top honor, the Heisman, in 1969. He amassed 3,867 rushing yards and still ranks second on the all-time rushing chart at the University of Oklahoma. He graduated to the professional ranks, where he became the first Detroit Lion to gain more than 1,000 yards rushing in a

single season.

For more information on FORESIGHT's RTO programs, phone: (405)366-8804.

Cordery promoted

Joseph Cordery has been promoted to vice president of Today Rentals, a Baltimore, Md.-based rent-to-own firm.

Cordery joined Today Rentals in 1986 as a district manager. In his new position, Cordery will be responsible for all merchandising and buying, as well as supervision of new store managers.

Today Rentals, founded in 1985, is a regional chain of rent-to-own stores along the east coast. It has six locations in metropolitan Baltimore with more in the planning stages, according to company president Bill Kasper.

Today Rentals deals in electronics, furniture and appliances.

Growing Pains

A new book, *Growing Pains*, deals with the predictable problems growing businesses encounter.

America cheers the entrepreneur, but the business landscape is littered with firms that had meteoric starts and equally dramatic ends — Osborne Computers, Campeau Corporation, Maxicare, Curtis Publishing, and numerous others.

Growing Pains, written by UCLA management professor Eric G. Flamholtz, pinpoints and analyzes the specific steps businesses can take to avoid the pitfalls of growth, even in a weak economy.

According to Flamholtz, whose research included industries ranging from electronics and advertising to real estate and restaurant management, all firms go through seven distinctive

stages of development — from the entrepreneurial stages to a mature company.

Growing Pains was released last December and distributed by Macmillan. The ISBN is 1-55542-272-1. For more information, call Bruce Katz (east coast) at (301)236-9319 or Laura Simonds (west coast) at (415)433-1740.

McCullar tapped

WBC Holdings, Inc. has promoted Loyd F. McCullar to operations manager.

McCullar, human resources manager since the inception of WBC, has been an integral part in the development of the company, and his background includes extensive



Loyd McCullar

experience in operations, safety and training.

WBC Holdings, Inc., founded in 1989, is a Houston-based holding company that operates 37 Rentronics rent-to-own stores in 23 markets.

Company headquarters are located at 908 Town & Country Blvd., Suite 500, Houston, Texas, 77024.

Ross moves up

Ed Ross has been named regional manager for mainland operations with Canyon Rent To Own, a Las Vegas-based company with locations in Hawaii and Nevada.

Ross joined Canyon in the entry-level position of customer service representative and had worked his way up to training store manager before the latest promotion.

Before moving to Las Vegas, Ross held the position of training manager for the circulation and customer service departments at the *Orange County Register*.

PR

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Our beautiful, feature-filled refrigerator is perfect for the rent-to-own market. Your customers will love it, too! But that's just the beginning of the GE appliance rental line.

We have washers, dryers, dishwashers, ranges, microwave ovens, room air conditioners and even more refrigerators. All are designed with the "most-wanted" features for your rental customers.

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To get more people into your store, try using the window.

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

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screen, they can use the built-in Smart Window to see what else is on.*

To find out how you can get Magnavox Smart Window TV's into your store, call Ken Gay at 615-521-4711. People will rush in to see them. But ask them to use the door.

Philips Consumer Electronics Company

*When used with a VCR

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