

Progressive

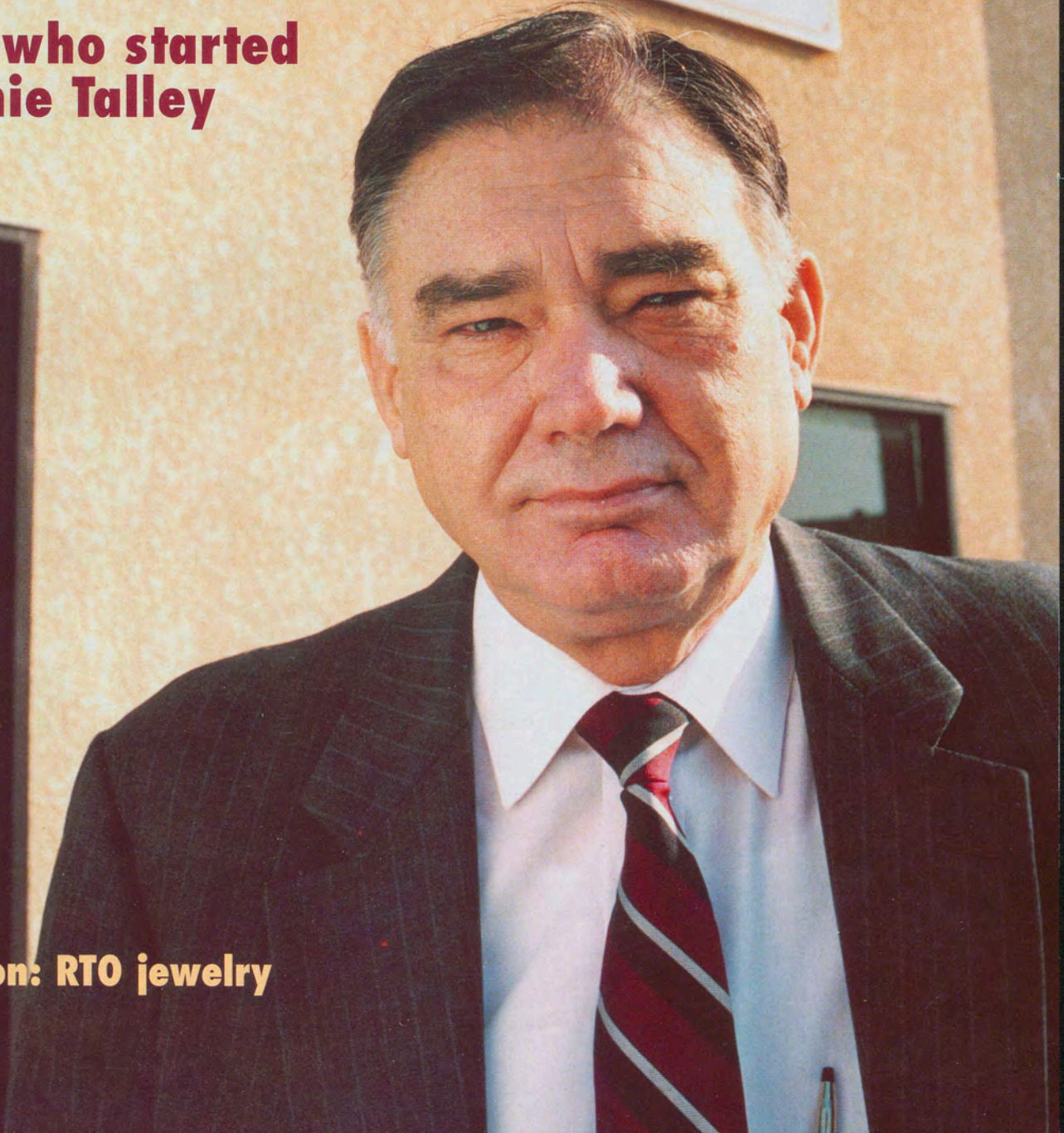
December 1991/
January 1992

Rentals

The magazine of the rent-to-own industry



**The man who started
it all: Ernie Talley**



Special section: RTO jewelry

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APRO

PR

Progressive Rentals

December 1991/
January 1992

The magazine of the rent-to-own industry

Volume 11, Number 6

Features

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First-quarter planning pays

It was the season to be jolly and, hopefully, prosperous. Now that the holidays are over, it's a good time to develop your year-long advertising so '92 can end even better than '91.

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Boost your bottom line

As an RTO owner, you may lament: "Why can't my people see the big picture?" They will start thinking like you, once you commit to their higher education — industry seminars.

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Ernie Talley, then and now

Thirty years ago, give or take a few, J. Ernest Talley unwittingly started an industry. Ernie developed more rent-to-own dealers from within his Mr. T's organization than anyone else since. We catch up with RTO's Mr. T.

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RTO jewelry legitimized

A scant few years ago, rent-to-own jewelry was little more than a novelty. Today, however, dealers will tell you it's definitely part of the product mix, and can mean 20 percent BOR.

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Beware of service contracts

The bankruptcy of EWC, Inc., an Oklahoma City-based service contract seller, left rental dealers and retailers holding the proverbial bag. The case brings up a set of issues that impact rent-to-own businesses.

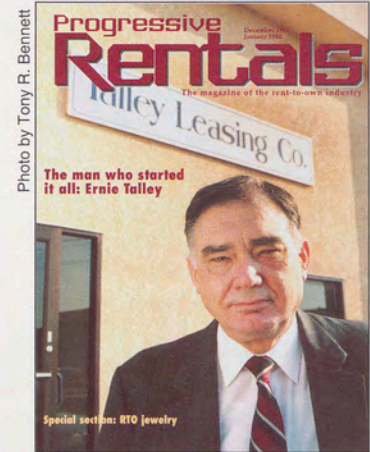


Photo by Tony R. Bennett

ON THE COVER: Ernie Talley, responsible for opening the first stand-alone RTO store in the 1960s, is back in business in the 1990s. We get to know him a little better with an exclusive interview and stories from some of his former pupils.

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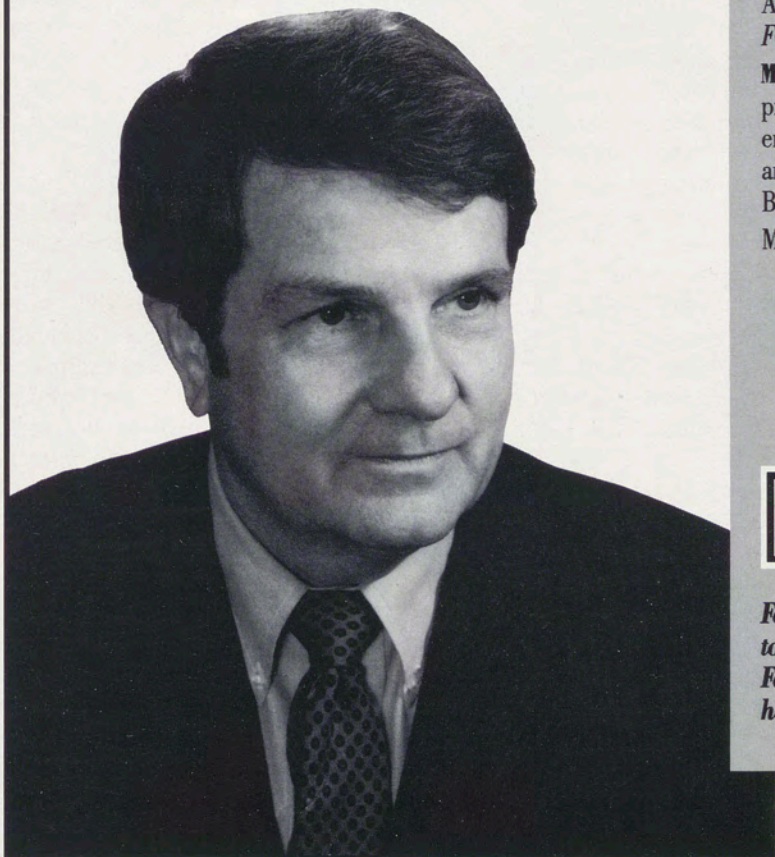
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News & Products

ATLANTA GIVES YOU MORE

"The Atlanta Markets provide us the best selection of the product mix we need to be successful in our business. Plus we enjoy the ease of shopping the Atlanta Markets."

R. Charles Loudermilk, Sr.
Chairman, Aaron Rents, Inc.



And MORE for you in '92

MORE INNOVATION, like the opening of the most comprehensive Accessories Center in America – more lines in nearly a half million square feet. *NEW*, and previewing in January.

MORE BUYING OPPORTUNITIES, like many showrooms being open daily for your convenience, in categories such as furniture, carpets, rugs, accessories, and gift.

MORE SALES SUPPORT, with aggressive market specials and introductions that help you *SELL*.

MORE CONVENIENCE. With all markets under one roof, the Atlanta Market Center is easier and more convenient to do business in than any other market city. And Atlanta has been voted the #1 city to do business in, by *FORTUNE* Magazine.

MORE FUN. Easy transportation to great hotels in all price ranges and to excellent restaurants. Plus *FREE* entertainment featuring Crystal Gayle, The Temptations and Mary Wilson, Georgia Tech Basketball coach Bobby Cremins, and the largest Super Bowl party ever! More reasons why you should be in Atlanta in January.

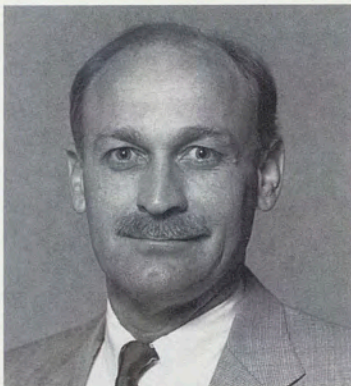
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January 25-29, 1992**

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By taking advantage of the APRO/state association network, you can tap into

RTO brainpower

AS I TRAVEL ACROSS THE COUNTRY TALKING TO RENT-TO-OWN DEALERS, I AM SURPRISED AT THE NUMBER OF DEALERS WHO DO NOT KNOW OR FULLY UNDERSTAND WHAT IS GOING ON AROUND THEM AND HOW IT MAY AFFECT THEIR BUSINESS.

I AM ALSO SURPRISED BY THE AMOUNT OF GOOD INFORMATION AND IDEAS THAT CAN BE GAINED BY ATTENDING A NUMBER OF STATE AND NATIONALLY SPONSORED SEMINARS AND MEETINGS.

•••••

There are many great "rental minds" floating around the country. These people are super sharp. Some of the more notable names are Bud Holladay, Ed Winn, Ted Wilson, Wayne Outlaw, Ron Waters, Chris Korst, Bill Keese and vendors like Norm Smith. All have their own perspective of the business. You may not always agree with what they say, but at least they are willing to say it.

Perhaps less recognizable — but no less important — names include Allen Lewis, Kent Sutherland, Roger Sharp, Jerry Reppert, Bob Simons, Darrell Tissot, Dan Whitsell, Kevin Quinn, and associate members such as Tom Hagen and Jerry Robinson.

My point is, these people are all available to talk with you. Each has knowledge in a specific area of expertise. I have enjoyed talking to all of them and encourage you to seek out these individuals to improve your business. By the way, many more great rental minds are available for networking. Unfortunately, I cannot mention everyone. First of all, I don't know them all. Secondly, there wouldn't be enough space even if I did.

To improve communication with deal-

ers around the country and strengthen the role of state associations in the process, APRO will roll out a state presidents' council program in early 1992. State presidents will be asked to meet in a general session annually to discuss important topics unfolding across the country and share information about their particular states. A smaller group will then be selected to interface with APRO on a more regular basis. This group will help coordinate activities on a regional basis, ensuring that a maximum amount of valuable information gets to dealers. For instance, dealers in the Southeast may get some valuable information from dealers in the Northwest using this type of networking system. In the past, regional information has not "migrated" so easily to other areas of the country.

The state presidents' council will also help APRO develop new member services — and improve the ones currently available, such as educational programs, seminars, speakers, publications, and responses to legal, tax and financial questions.

Finally, I have had the opportunity during the past several months to learn about individuals across this great land who strive to destroy things in the name of "right and justice." In reading some of their published articles I am not surprised to see facts distorted in a manner that might paint a picture in their favor. Approximately 2.9 million households spend \$3.5 billion annually to enjoy merchandise provided by rent-to-dealers employing 38,000 people at a payroll cost of \$810 million.

I wonder who will fill the gap if the "do-gooders" succeed in ruining the rent-to-own industry. I would encourage them to spend more time helping a fledgling industry get better, rather than trying to put more people in the unemployment lines and deprive many households of a small piece of the American dream. It's a clearcut choice to me. **PR**

•••••

BY

WAYNE CHAMBERS

GET READY FOR THE RECOVERY!

CUSTOMERS ARE COMING BACK

NARDA/NASD CONVENTION & EXPO '92 Will Tell Dealers & Servicicers How To Capture & Hold Their Loyalty!

THE PROGRAM THAT WILL PROGRAM YOUR BUSINESS FOR SUCCESS!

- "Building A Winning Image"
- "Making Unhappy Customers Happy"
- "Mastering the Art of Customer Service"
- "Building Customer Loyalty"
- "Cost Effective Store Planning With Immediate Results"
- "Advertising: Yellow Pages Cost vs. Value"
- "Business Automation"
- "ESP — How To Protect Yourself"
- "Competing with Utilities"
- "Product Diversity"
- "Finding Financing For Your Business"
- "Family Business Succession"
- "Programming Your Business For Success"
- "Who Were The Winners in '91 and How Did They Do It"

PLUS . . .

EXHIBITS FROM THE
SUPPLIERS YOU WORK WITH
AND THOSE YOU SHOULD GET
TO KNOW!

AND MORE . . .

- A gala reception at Church Street Station
- Golf and tennis tournaments at Marriott Orlando's World Center
- Family tours of Universal Studios and Sea World
- Annual NARDA/NASD Banquet with a little bit of magic!

**BUILD A WINNING IMAGE FOR
YOUR RETAIL OR SERVICE
STORE IN JUST THREE DAYS!**



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COMPANY _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

PHONE _____

Return to: NARDA/NASD '92 Show Management, 16066 South Park Avenue,
South Holland, IL 60473 or contact (708) 333-9292 or FAX: 708-333-4086.



A New Year

1992 ushers in changes, opportunities

HAPPY NEW YEAR TO ALL!

ON BEHALF OF THE APRO BOARD OF DIRECTORS AND THE STAFF, I WOULD LIKE TO WISH ALL OF YOU A VERY HAPPY AND MOST PROSPEROUS NEW YEAR.

OVER THE PAST SEVERAL YEARS, ALL OF US IN THE RENT-TO-OWN INDUSTRY HAVE GROWN ACCUSTOMED TO CHANGE AS A WAY OF LIFE. CERTAINLY, 1992 LOOKS LIKE IT WILL BE ANOTHER YEAR FOR CHANGE.

.....

As I've expressed many times in my column, I view a changing environment as an opportunity to grow. I happen to like "change." Here at the office of APRO we're beginning the new year with a reorganization of personnel and assigned duties. This change is designed to streamline the management of your association and to give APRO a more aggressive posture.

Effective Jan. 1, I have created a marketing department in APRO. Cindy Ganther and Carolyn Fitzsimmons, working together in this department, will be in a position to better promote the benefits of the association within the rent-to-own industry. Cindy and Carolyn will be selling advertisements in all APRO publications. Additionally, they will be soliciting exhibitors to reserve booth space at the annual APRO convention and trade show. Associated with this, they will be responsible for assigning booth space to exhibitors, based on the same criteria as APRO has always used. Also, they will be responsible for aggressively recruiting new members, both regular and associate, for the association.

In keeping with one of the main goals of Wayne Chambers, APRO's president, I have created the education department.

Shelley Martinek and Hilde Parker will be responsible for the organization and execution of all national and state educational seminars, as well as all meetings and educational seminars at the annual convention. Hilde will continue to be the person to process orders for the APRO rental agreements. Shelley will also work with Ron Waters, APRO's government affairs director, to assist all state associations in the mechanics of holding state meetings.

Christine Fulton, our part-time bookkeeper, has recently graduated with an accounting degree from the University of Texas, and is going on to establish her career. Tulisha Carson, formerly our receptionist, will assume the duties of bookkeeper, and will also serve as secretary for both Ron Waters and myself.

In addition to my regular duties, I will also be spending more time with the activities within the government affairs department. All calls concerning government affairs will be directed to me during those times when Ron is out of the office, working with the various state organizations furthering the cause of rent-to-own.

This is the first reorganization in the APRO staff since shortly after I became executive director. But times and circumstances do change, and APRO must keep abreast of those changes. Every dealer knows this axiom. The 1990s are bringing new and more challenging opportunities. More efficiency, more directed focus on the important aspects of business, and renewed enthusiasm are essential for any organization's growth and development. I am convinced that this reorganization will provide your association with the structure and manpower needed to advance APRO to the next plateau.

Everywhere I travel, every member I visit with, has recognized the accomplishments of your national trade association over the last two years. We are now reorganized to take the association onward, to provide you, our members, with the direction and quality you demand.

PR

.....

BY

BILL KEESE

You Can **DEPEND** On



Cosmic
for

**Exquisite Styling,
Reliable Service and
Delivery with
the Personal Touch**

**You Don't Have To Say To Your
Customer:**

"I Believe" - "I Think"

"I Don't Know" - "I'll Find Out"

"I'll Let You Know"

**EXCELLENCE -
WE FIND IT
AND
WE CREATE IT**

THERE IS NO NEED TO HESITATE--DEPEND ON COSMIC TO DELIVER! Use the annual Cosmic Diamond Catalog--make it your working partner...we're just a phone call away with the answers to your questions. You'll always get our personal touch and the integrity of a 47-year-old family run firm.

**COSMIC your friend in the
diamond business!!**

APRO Associate Member since 1989

The House of Commans Inc.

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SEVENTEEN THIRTY-EIGHT MAIN

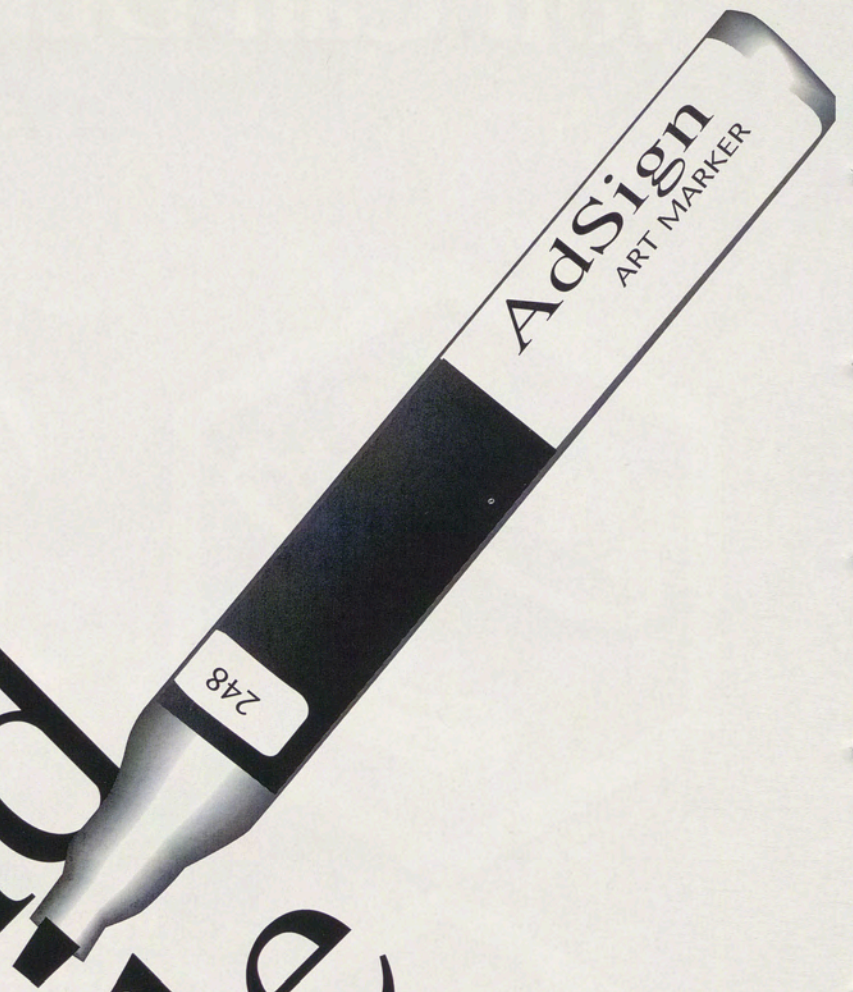
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European Diamond Buying Offices: 86 Pelikaanstraat, Antwerp (Belgium) Tel-Aviv (Israel) Bombay (India)

Year End Sale



.....

BY

RANDY **BUFFINGTON**

To maximize effectiveness, begin planning your entire '92 ad strategy now during this

First Quarter

"T'WAS THE SEASON TO BE JOLLY," AS WELL AS AWARE. EVERY YEAR THE FOURTH QUARTER COMES UP AND RENT-TO-OWN DEALERS FACE THE DILEMMA OF WHETHER OR NOT TO ADVERTISE. BUT IT'S A NEW YEAR, YOU POINT OUT. WHY DWELL ON YEAR-END STRATEGIES? BECAUSE NOW'S A GOOD TIME TO EVALUATE YOUR OVERALL ADVERTISING PROGRAM AND PLAN FOR 1992.

You might say, "Fourth quarters have been good to me. How much more is there to gain by spending on advertising campaigns?" How often have you asked yourself this question and wished you had a crystal ball?

The best advertising is consistent advertising throughout the year, but you should plan and adjust your budget based on the particular quarter or season. Clearly, not all quarterly budgets should be the same. Spending that extra dollar in the fourth quarter may seem like a waste of money. It has the potential, however, to net you a gain that will carry you through the first quarter of the new year. I am not suggesting the fourth quarter should have the largest budget, just make sure it's no lower than second place. With a little planning you can really end 1992 with a bang.

First decide what media can be stretched the most during this season. If television is your game, keep in mind that TV rates go for their highest premiums during the last quarter. Add to this the problem of availability. Often during the fourth quarter TV stations have a tendency to run out of times for your spots to run. This is where pre-planning and pre-booking pay dividends.

Don't wait for fourth quarter 1992 to come around before sitting down with your TV reps. Sit down in June and plan

until January. By doing this you'll gain an advantage in two respects. One, you'll gain a rate advantage in giving the rep a larger buy to take to his sales manager. It's hard for a rep to get you those discounts you want on small buys. Use this large buy to your advantage and tell him you want a two-week cancellation clause. The second advantage is the sooner you place your times the better chance you have for good avails.

I don't like to run television any later than the week before Christmas. In most cases the rentals you got from the Saturday before Christmas often return to you in January.

If print will get you more bang for the buck, start your preparation in August. Think about a circular program that you can print generic enough for two months. These months should be October and November. By doing it this way you will save money on printing because of the larger quantities as well as shipping. Carriers bringing it from your printer will give you a better price on larger loads than smaller ones.

If you are doing a circular program for these two months, make sure it is sitting at your distributor no later than Sept. 15. Give yourself more time for printing and shipping during this season. Avoid the

CONTINUED ON NEXT PAGE

Continued from previous page

rush and save yourself the hair pulling.

Some budgets won't allow for a TV push or a circular program. Dealers in this category should utilize the weekly shoppers and preferred customer letters in October and November. Then, in the beginning of December, send Christmas cards to current and past customers. Enclose a \$50 gift certificate that the customer can apply to a new rental. I've seen as much business generated with these Christmas cards as I have with major ad campaigns.

Another good idea is to have a drawing. An old pre-leased tower system, given away just before Christmas, attracts a lot of attention. Be inventive and willing to try something new. The biggest waste in advertising today is the search for guarantees.

Be sure and consider your employees' creativity. Set up contests that will take advantage of the festive mood as well as their competitive spirit. If you have more than one store, set up a display contest for the different hol-

iday events. Tell each manager he has \$30 to set up his or her store. This is where the creativity comes in. I have seen managers who are very creative. Take time to pay attention to the details that make a big difference. You should mystery shop your stores at least twice a month during these important times.

Make sure you reward employees for a job well done. Advertising alone will never increase your net profit. It takes planning and your employees working together to make the winning combination.

Take a lesson from the dealers who have been around several years: Be careful about over-ordering during December. Many new dealers are caught up in January with new merchandise coming in as well as old merchandise coming back from the Christmas rush. Some dealers get their returns in January and some get them in February. It is difficult to say why this difference exists. If you get your merchandise back in February look at doing television; TV during the first quarter is the cheapest time of the year. The extra advertising done during this

month can be of great help to your keep rate for February.

Keep your advertising promotions simple for your customers, as well as your people. The most important part of your promotions is not the title, but how well you planned and performed the promotion.

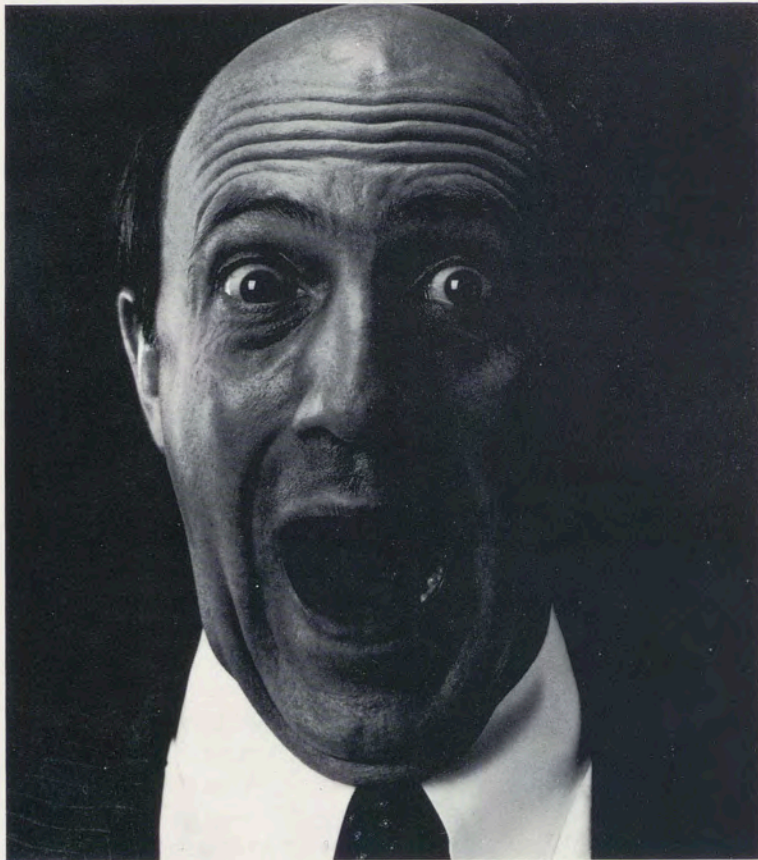
Keep this simple checklist in mind:

- Is the promotion simple?
- Can my people sell it?
- How well does the store look?
- Is my timing right?
- Is there urgency in my advertising?
- Did I do my demographics right?

There's no magic to effective advertising, just pre-planning and hard work. Those two ingredients will help make the fourth — or any other quarter of the year — a jolly season for you and your business. From T. Buff and myself, and our employees, may you all have a happy new year.

PR

Randy Buffington is partner of T. Buff & Son Promotions, which handles advertising consulting and design for rent-to-own and retail clients. He can be reached at 1-800-359-7880.



IT'S TIME TO CHANGE YOUR OUTLOOK ON JEWELRY.

No more overpaying. No more guesswork. And no more confusion. T&S Imports makes it easy for your jewelry operation to turn a profit.

We will help you choose the right pieces for your customers. Deliver those pieces on time and at the quality level you've specified.

And then we show you how to merchandise your jewelry to keep your BOR up and management time down.

We do all this while giving you a higher quality product at a lower cost. So you get better margins and increase your competitiveness.

If you want jewelry to do more for you, call us at **1-800-523-5224**. We'll give your program a whole new look.

T&S IMPORTS CO., INC.

APR Associate Member since 1991

Dealers share their opinions on issues important to rent-to-own

In lieu of letters to the editor, we've done the next best thing to solicit rent-to-own dealers' views. We called several up on the phone to ask what's happening out there.

We talked to three people for this issue. The first is a one-store dealer in a relatively small but competitive market. The second is a three-store dealer in a crowded metropolitan market, while the third is a top executive of a 40-store chain.

Their comments were very similar to each other. All three cited financing as their top concern and one of them listed tax treatment of rent-to-own as a close second.

Some comments addressed product mix and trends, while others dealt with subjects ranging from increased competition to advertising methods.

The first dealer is a former APRO member, while the latter two participants are current members. Here are some excerpts:

...

Glenn Lott
Owner/operator
Rainbow Rental, Inc. (one store)
Gulfport, Miss.

In general: "Well, I don't know about the rest of the country, but in my market it's become increasingly competitive. The big guys have moved in, dropped price points and just made it harder in general to make a dollar. That's the biggest thing that's happened here — the lowering of your rental rates due to heavy competition. Of course, that cuts your profit margin down and makes it harder on a small, independent dealer like myself."

On financing: "We mutually discontinued financing and we paid them (lender) off, and it cost us dearly as far as our growth. But I've overcome that and have found alternate means of financing. I think that is a big concern of any rental dealer, especially at this point since a lot of things have changed. It's not like it used to be. Independents in this business

are going to fare a lot better if they can secure local financing."

On product mix: "I'm trying to diversify a little bit in my product line — increasing the quality of my furniture line. It helps. The drawback is it's added labor, for most. But I still deliver all my furniture with one person."

On advertising: "I do in-house direct mail, which is a little bit time-consuming but it's more effective simply because I know where to send it. I don't blanket zip codes. In this market, if you do that you lose a lot because in some zip codes ... your clientele is not there. So I concentrate mine into the areas where I know my customers are."

...

Jim Ferello
Owner/operator
Pro Rents (three stores)
Cincinnati, Ohio

In general: "November was a good month. I was happy for that, because October was kind of a disappointment, at least in the greater Cincinnati area. November rebounded rather nicely. The five weekends helped, although it was kind of a short month — we were only open 25 days."

On competition: "When I got in the business in Cincinnati, years and years ago, there were only 17 dealers in the greater Cincinnati area. Now there are about 50. So we've been able to maintain our penetration, but it certainly hasn't gotten any easier."

Major concern: "As far as what's going on, everybody's got the same concern in the back of their minds: financing. A lot of people got into the business with parents' money and creative financing. I don't know what they're going to do. It's totally unfair to change the game after 15 years of having it one way. They (lenders) changed the game."

Overall assessment: "I really don't know what's going to happen. I'm no different from anybody else in the industry; we've been doing business

and paying our bills for years. I know we're not the bad guys, but they (lenders) kind of make you think that you are. I think this is a good business, but we're being made to pay for the mistakes of others."

...

Randy Snyder
Treasurer
Rental King (40 stores)
Massillon, Ohio

Year-end appraisal: "Nineteen-ninety-one has been a very soft year. It hasn't been a disastrous year, but it hasn't been a good year, either. So we would hope that 1992 would be better."

Major concern: "The financing issue is a big issue that we're going through right now. It's been very difficult for us to get the banks to accept the risk of the rental industry. Generally speaking, the collateral requirement has been the biggest problem, but there are banks out there — you just have to be persistent in your efforts. They will work with you, as long as you're not highly leveraged."

On recession-proof RTO: "I've heard a lot of people say how recession-proof this industry was. We've found it not to be the case. This recession has definitely hurt us."

On tax issue: "I think taxes are a big concern, too. There's no question about that."

...

(Editor's note No. 1: APRO leaders and committee members are working on the financing and tax issues, as well as a host of others that affect the rent-to-own industry. Bob Simons is chairman of the APRO New Financial Sources Committee, while president Wayne Chambers chairs the association's tax and accounting committee. For more information, call 512-794-0095.)

(Editor's note No. 2: You don't have to wait for a call from us, if you've got an opinion — whether it's good or bad — to share with other dealers. Send it in a letter to: Progressive Rentals, APRO, 6300 Bridgepoint Parkway, Suite 305, Austin, Texas, 78730-5016. Your concerns will be forwarded to the appropriate elected leaders within the association.) **PR**



It pays to study your loan options

Opportunities exist for securing the capital your business needs, but most require some research

BY INVESTIGATING THE TYPES OF LOANS AVAILABLE TO SMALL BUSINESSES — AND UNDERSTANDING THE TERMS AND CONDITIONS CHARACTERISTIC OF TYPICAL BANK-LOAN AGREEMENTS — YOU CAN ENHANCE YOUR ABILITY TO OBTAIN DEBT FINANCING AND STRUCTURE A LOAN AGREEMENT THAT MEETS YOUR BUSINESS' SHORT- AND LONG-TERM FINANCIAL NEEDS.

Although there are a variety of alternatives for financing available to today's small and growing companies, traditional loans from a commercial lender are still among the most common sources of capital.

There are several factors attributable to this preference for debt financing. The most prevalent: Borrowing has become a way of life in our society. Families, students, entrepreneurs and even government agencies have come to rely on borrowed funds.

Second, the financial services industry has become increasingly competitive. New sources of debt financing have emerged, forcing commercial banks to compete for the opportunity to service the needs of the small-business community.

Third, basic financial management theories teach that the power of leverage usually makes debt less costly than equity financing.

Fourth, debt financing offers an alternative for attracting additional capital into the company without diluting ownership. And, finally, from a tax perspective, the deductibility of interest often makes debt an attractive financing alternative for the rapidly growing enterprise.

Despite the fact that almost every small business will at some point borrow from a commercial lender, there remains a lot of mystery, confusion and resentment in relationships between bankers and

entrepreneurs. Owners and managers of small companies are apt to tell you horror stories about the heartless bankers who do not understand and appreciate their business requirements. Loan officers will tell you about the "idea rich and asset poor" entrepreneur who expects to borrow \$1 million collateralized only by a dream; or the horrible experience they had foreclosing on yet another default by a small business.

Given these problems, it is crucial for the small business owner to understand the lender's perspective. Banks are in the business of selling money. Capital is the only product in their inventory. And, bankers are both statutorily and personally adverse to risk. The shareholders and board of directors of any bank expect that loan officers will take all the necessary steps to minimize risks to the institution in each transaction and to obtain maximum protection in the event of default. Therefore, the types of loans available to small companies, the terms and conditions of loan agreements, and the steps taken by the bank to protect its interest all have a direct relationship to the level of risk that is perceived by the lending officer and the loan committee.

As a small business owner faced with having to secure financing for growth and operations, it is vital to explore available financing vehicles, the most common of which is debt financing. Because it is

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BY

ANDREW J.

SHERMAN

likely that Your small business will someday need to secure debt financing for a variety of reasons, it is to your advantage to understand the types of loans available and the preparation and negotiation required.

Preparing for debt financing

As a small business owner seeking debt financing from a commercial bank, you must embark on an immediate risk mitigation and management program in preparation for negotiation of the loan documentation.

The mitigation and management of risk always has a direct result on the favorability and affordability of traditional debt financing. For a small and growing company, this means: a strong management team; an aggressive internal control system and accounts receivable management program; financial statements and projections that demonstrate the ability to service the debt; well-developed relationships with suppliers, distributors and employees; and an understanding of the trends in the marketplace.

Most lenders will require a candidate for debt financing to prepare and present a loan proposal package. (*For a comprehensive outline of such a package, see the accompanying sidebar.*) Although the exact elements of such a package will vary depending on the size of the company, its industry and its stage of development, most lenders will want the following fundamental questions answered:

1. Who is the borrower (i.e., What is the borrower's business background? Management expertise? etc.)?

2. How much capital is needed and when?

3. How will the capital be allocated? For what specific purposes?

4. How will the borrower service its debt obligations (e.g., application and processing fees, interest, principal or balloon payments, etc.)?

5. What protection can the borrower provide the bank if it becomes unable to meet its obligations?

The answers to these questions are all designed to assist the banker in assessing the risks presented by the proposed transaction. However, these answers are also designed to provide the commercial loan officer with the information necessary to persuade the

loan committee to approve the transaction. Small business owners must understand that the loan officer, once convinced of the company's credit-worthiness, will usually then serve as an advocate on behalf of the borrower in presenting the loan proposal to a loan committee.

The loan documentation, terms, rates and covenants that the loan committee specify as a condition to making the loan will be directly related to the ways in which your company is able to demonstrate its ability to mitigate and manage risk, as described in the business plan and loan proposal.

Types of loans

During the process of planning your company's capital structure and preparing the loan proposal, it is important to understand the various types of loans that are available from a commercial bank, one or more of which could be tailored to meet your requirements.

Loans are usually categorized by the term of the loan, the expected use of the proceeds and the amount of money to be borrowed. The availability of these various loans to your company will depend on both the nature of your industry as well as the bank's assessment of your credit-worthiness.

The types of loans traditionally available to a small business include:

Short-term loans. Ordinarily, small companies use short-term loans for a specified purpose, and lenders expect that the loan will be repaid at the end of the limited project. For example, a seasonal business may borrow capital in order to build up its inventory in preparation for the peak season; however, when the season comes to a close, the lender expects to be repaid immediately. Similarly, a short-term loan could be used to cover a period where the company's customers or clients are in arrears; however, when the accounts receivable are collected, the bank must be repaid.

Short-term loans are usually made in the form of a promissory note which is payable on demand. The promissory note may be secured by the inventory or accounts receivable which the loan is designed to cover, or it may be unsecured, under which no collateral will be required.

Unless the company is a start-up or

operates in a highly volatile industry (thereby increasing the risk to the lender), most short-term loans will be unsecured, which keeps the loan documentation and the bank's processing time and costs to a minimum. This is generally because lenders view short-term loans as "self-liquidating" in that they can be repaid by foreclosing on the current assets which the loan has financed.

The fact that the bank's transactional costs are low, along with its perception of the lower risk during this short period of time, makes short-term borrowing somewhat easier to obtain for a small business, and serves as an excellent means for establishing an initial and ongoing relationship with a bank and demonstrating credit-worthiness.

Operating lines of credit. A line of credit consists of a specific amount of capital which is made available to the borrower on an "as needed" basis over a specified period of time. A line of credit may be short-term (60 to 120 days) or intermediate-term (one to three years), renewable or non-renewable, and at a fixed or fluctuating rate of interest. If this type of debt financing is chosen by a small company, owners and managers should be especially careful to negotiate ceilings on interest rates, avoid excessive commitment, processing, application and related "up-front" fees, and ensure that repayment schedules will not put an excessive financial strain on the company.

Intermediate-term loans. An intermediate-term loan is one which is usually provided over a three- to five- year period, for the purposes of acquiring equipment, fixtures, furniture, and supplies or for expanding existing facilities, acquiring another business or obtaining working capital. The intermediate-term loan is almost always secured, not only by the assets being purchased with the loan proceeds, but also by other assets of the company that may be available to serve as security (e.g., inventory, accounts receivable, equipment and real estate).

The intermediate-term loan will usually call for a loan agreement, which typically includes restrictive covenants that govern the borrower's operation and management during the term of the loan. These restrictive covenants,

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Continued from previous page

discussed in greater detail later in this article, are designed to protect the interests of the lender and ensure that quarterly payments are made on a timely basis before any dividends, employee bonuses or non-critical expenses are paid.

Long-term loans. As a general rule, banks do not provide long-term financing to small businesses. The risk of market fluctuations and business failure over a 10- or 20-year term is simply too high for most commercial lenders to feel comfortable. The exceptions to this rule are for specific, highly secured transactions, such as the purchase of real estate or a multi-use business facility, in which case a lender will consider extending a long-term loan to a small company for 65 percent to 80 percent of the land's or building's appraised value.

A Small Business Administration (SBA) guarantee through a participant in the SBA's certified lender program may also be sufficient collateral to negotiate a seven- or 10-year loan.

Understanding and negotiating loan documents

Assuming that you have prepared an effective loan proposal and convinced the bank of your company's credit-worthiness, the next and most important step is to carefully review and negotiate the loan documents that your company will be expected to sign and comply with throughout the term of the loan.

Although intermediate-term loans tend to be one of the more complex types of loans, they are often used by small businesses seeking financing. For demonstrative purposes, assume that an offer to extend a five-year term loan at a prime-plus 2 percent rate of interest has been extended to your company. What are the legal issues that must be addressed and negotiated, and what documents are involved in the transaction?

Examining the loan documentation

The loan documentation involved in a typical intermediate-term loan is as follows:

The loan agreement. This sets forth all of the terms and conditions of the transaction between the lender and the borrower. The key provisions are amount, term, repayment schedules and procedures, special fees, insurance requirements, conditions precedent, restrictive covenants, the borrower's representations and warranties (with respect to status, capacity, ability to repay, title to properties, litigation, etc.), events of default, and remedies the lender will pursue in the event of default. The provisions should be reviewed carefully by an experienced attorney and a knowledgeable accountant.

The long-term legal and financial impact of the restrictive covenants should be analyzed. Negotiate to establish timetables under which certain covenants will be removed or modified as the company's ability to repay is clearly demonstrated.

The security agreement. This will identify the collateral to be pledged in order to secure the loan. The security agreement will usually reference terms of the loan agreement as well as the promissory note, especially with respect to the restrictions on the use of the collateral and the procedures upon default of the debt.

Remedies available to the lender under the security agreement in the event of default range anywhere from selling the collateral at a public auction to taking possession of the collateral and using it for an income-producing activity. The proceeds from any of the alternatives chosen by the lender will be used principally for repaying the outstanding balance of the loan.

Financing statement. This is the document that is filed with the state and local recording office to protect the interests of the lender in the collateral. It is designed to give notice to other potential creditors of the borrower that a senior security interest has been granted in the collateral specified in the financing statement.

Promissory note. This is the actual instrument which serves as evidence of the obligation of the borrower to the lender. Many of its terms will be included in the longer loan agreement, such as the interest rate, the length of the term, the repayment schedule, the ability of the borrower

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to prepay without penalty, and the ability of the lender to accelerate the note in the event of default.

Guaranty. Many small business owners will be asked to personally execute a guaranty as further security in order to mitigate the risk of the transaction to the lender.

Negotiating the loan

To get a loan with favorable terms, you will have to work with the banker in negotiating the following items:

Interest rates. A banker will generally calculate the rate of interest in accordance with prevailing market rates, the degree of risk inherent in the proposed transaction, and the lender's costs of administering the loan.

In theory, a greater amount of liquid assets offered for collateral should translate into a lower interest rate because it tends to minimize the risk to the lender. However, borrowers should also understand that collateral-secured loans also involve higher processing and monitoring costs to the bank which will usually be passed on to the borrower through higher interest rates and closing fees.

Collateral. The lender may request that collateral be pledged to secure a loan over and above the security interest in the assets — a pledge of assets which serves as collateral for a loan, as set forth in the security agreement — to be acquired with the proceeds of the loan. Under such circumstances, owners and managers of small companies should try to negotiate a loan which keeps the assets of the business available to serve as security for future loans.

Beyond the traditional forms of tangible assets that may be offered to the lender as collateral, borrowers should also consider intangible assets, such as assignment of lease rights, key-person insurance and intellectual property and goodwill, as potential sources of collateral. Naturally, these assets could be very costly to a firm in the event of default and should be pledged only when the ability to repay the loan is readily available.

Restrictive covenants. As will be discussed, the typical loan agreement will include a variety of restrictive covenants designed to protect the

CONTINUED ON PAGE 53

Preparing the loan proposal

VIRTUALLY ANY SOPHISTICATED LENDER WILL WANT TO KNOW AS MUCH INFORMATION AS POSSIBLE ABOUT THE PROPOSED BORROWER AND HOW THE FUNDS WILL BE ALLOCATED. THE LOAN PROPOSAL SERVES THE PURPOSE OF EDUCATING THE LOAN OFFICER.

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Once the loan officer truly understands your business and your reasons for requesting the loan, he or she will be better able to structure the financing, argue your case before the loan committee, and be available to meet your future financing needs.

A well-written loan proposal can assist your company in getting more favorable terms and conditions, because the strength of the business and its ability to repay has been documented.

Your loan proposal should contain the following information:

Summary of the request. An overview of the history of the company, the amount of capital needed, the proposed allocation of the capital, the collateral available to secure the loan and the terms desired.

History of the borrower. A brief background of the business, its capital structure, its key founders, its stage of development and plans for growth, a list of key customers, suppliers and service providers, the management structure and philosophy, facilities, the key products and services offered by the company, and an overview of any intellectual property owned or developed by the company.

Market data. An overview of trends in the industry; the size of

the market; the company's market share; an assessment of the competition, marketing, public relations and advertising strategies; and future industry prospects.

(Editor's note: APRO regularly provides rent-to-own industry statistics, based on annual surveys, to its members. The association also offers a set of special publications designed to help dealers with financing.)

Financial information. Proforma financial statements, a current balance sheet and a two-year income statement should all be provided if available.

Carefully explain the basis for all assumptions made in the projections. Include a comparison of the company's financial performance thus far to industry standards and key ratios. Explain the role of the capital requested in achieving the company's plans for growth, an allocation of the loan proceeds and the company's ability to repay.

Discussion of the company's ability to service the debt should be supported by a three-year cash flow statement, broken down on a monthly basis. The bank may need personal financial statements, especially if a personal guaranty is requested.

Exhibits. Include a schedule of supporting documents available to the lender for inspection upon request, such as insurance policies, key contracts, employment agreements and leases.

Appended to the loan proposal should be resumes of the company's principals, recent articles about the company, a picture of the company's products or site, along with an organizational chart of the management structure.

— Andrew Sherman

Send your people to industry seminars, and you'll soon see a team of budding entrepreneurs who are committed to

Increasing the bottom line

YOU ASK YOURSELF, "WHAT CAN I DO TO GET THESE MANAGERS TO THINK LIKE MYSELF, AN ENTREPRENEUR?" TWO THINGS MAKE AN ENTREPRENEUR SUCCESSFUL. ONE IS JUST SHEER DETERMINATION THAT HE IS GOING TO GET IT DONE SOMEHOW, SOME WAY, AND THEN ALWAYS FINDING A WAY TO GET IT DONE; THE OTHER IS THROUGH KNOWLEDGE, EDUCATION AND INFORMATION THAT IS DERIVED FROM OTHERS WHO HAVE GONE THROUGH SIMILAR CHALLENGES.

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BY

MAC McCULLAR

In other words, an entrepreneur is not going to waste his time reinventing the wheel, if he can help it. So why do we tell ourselves we can't afford to send our people to seminars? It's not necessarily because of the cost of the seminars. Instead, we reason that we just can't afford to be without them in the store today, tomorrow or for two days at a time. A typical concern: "What will happen to the operation if I send them?" Well, I ask you, what will happen if you don't?

In business, stagnation is death. Without constant change for the better — most people call it improvement — businesses cannot continue to compete. And once businesses fall behind in today's highly competitive environment, they soon fail. It's as simple as that.

The key to improvement is people. Without their commitment, improvement is impossible. In our company, we make sure our managers have direct access to the latest information and techniques. Notice I include the word "direct" here. I'm not talking about second-hand, trickle-down bits of knowledge. To get the kind

of commitment I need from my people, I have made a commitment to them: continuing education and training. That means sending them to outside seminars, such as the ones APRO cosponsors with state rent-to-own associations.

I'll admit, we as entrepreneurs play a crazy game. It's a juggling act. You know — what to do with whom, when, where, how to do it, how much money, how much time do we devote to it?

Okay, let's just talk straight for a little while. Ask yourself, how many times have you been to a seminar or another type of learning experience, gained some new ideas and decided you wanted to use them in your business? And how many times did you try to implement changes or new programs based on these ideas, only to find yourself hitting a brick wall?

Here's the scenario: As the dealer/owner of the company, you come back from an APRO-sponsored seminar. When you attempt to, in turn, present a great idea to your key managers, they get a cloud instead of the clear visualization that's in your mind. They don't recognize the same pic-



Getting your employees in a problem-solving, entrepreneurial mode can be accomplished through education.

ture being drawn that you did at the seminar. They don't see the dynamic speaker. Light bulbs don't go off in their heads, illuminating the opportunity for increased efficiency and profits. All they see is change — not in the sense of improvement but, rather, in a negative connotation. As in more work; something new to worry about.

This is generally because your mid-management is not even on the same

wavelength as you, the owner.

They are likely to view you as coming down the chain of command with yet another "scheme" that sends the normal operation of the company into an upheaval. Change threatens the status quo, and they don't think of change as being inherently good. So often, people can only see things as they are, not as they could be. The reaction is something like this: "Gee, I wish he would leave me alone and

let me do my job. I know what I'm doing."

Well, that's perfectly normal. Most people in management really do believe that they know what they're doing. They are kind of set in their ways. They're very resistant to change. In fact, most everyone resists change, when you think about it.

I used to run into this problem all the time. It was frustrating. I'd pull

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my hair out. I mean, I had so many good ideas to share. I would carefully pick the best and most relevant ideas from outside sources, then try to get my people to implement them. Many times, they just wouldn't cooperate. And to be honest with you, they really want the best for the company. It's not that they don't. It's just that they don't want to change because they think what they're doing, or the way they've learned it, is the right way.

Well, I've decided to fight, but not in the confrontational sense. I finally understood that I could not get through with all my great ideas because, simply, if my people didn't like it, they might say, 'This sounds good; this is

Can you really doubt whether or not they're going to cross the goal line, when they set the goal? They know where it's at; you didn't set it ... Instead, they tell you about their goals — and then go about reaching them.

wonderful,' but if they really don't agree then they won't implement the change. They'll let it die or they'll kill it. And I've seen them do that — kill an idea that would put money in their pockets and make their lives a lot easier. Why? Because they either didn't realize what it would mean to them, didn't believe it, or were just naturally afraid of change.

Well, that realization kind of outdated the practice of just sending myself to seminars. Learning all the

new techniques and all the different ways of doing things, finding out the best, sorting it out, taking the good, leaving the bad and bringing it back and implementing it into the company. That wasn't enough.

I remembered from my earlier days hearing someone say the easiest way to get people to do something is make them believe it's their idea. Bingo. What a revelation. Why not send my key people to selected seminars and speakers? Let them come back with two or three good ideas to implement. That way, they can run the ideas by me and get my endorsement.

This approach allows them to implement the ideas that will keep our company competitive. If you take the same approach, then your people won't allow the good ideas to die because they will be theirs. You've got their commitment — an important prerequisite to success.

And guess what happens? Your managers get excited. They've got a new idea. They have the ball and they're running with it. Can you really doubt whether or not they're going to cross the goal line, when they set the goal? They know where it's at; you didn't set it. You didn't tell them where they had to go. Instead, they tell you about their goals — and then go about reaching them.

I know it all sounds easy, but it wasn't so easy for us at first. After I had decided to send members of our mid-management to APRO seminars, some of them didn't want to go. They viewed taking off to go to these seminars the same way I used to — as a non-productive use of their time. They really had day-to-day problems that needed attention. Well, they were firemen. They're no longer firemen. They are progressive managers and they make up one hell of a management team.

The real key is to select the pros and let your people learn from them. Your managers will come back and teach you. They might surprise you with

APRO/state seminars meet practical, educational needs

APRO is offering an educational program based on cosponsored seminars with state rent-to-own associations. The seminars are geared toward RTO store employees.

Company owners and senior managers who get the most out of these seminars are the ones who bring their middle management team with them. That's because the best way to implement changes learned at the seminar is for a dealer to have the total support and backing of his management team. These seminars foster team spirit.

The seminars are conducted by experienced individuals who have been in the RTO industry for many years, not by professional consulting companies who charge speaking fees in excess of \$1,000. These people understand and convey the marketing and financial aspects of store operations. Emphasis is placed on getting back to the basics of RTO.

Cost of attending is kept low — \$60 dollars per person. In addition, \$5 discounts are available to seminar participants who are members of the state and national rent-to-own associations. Therefore, some qualify for the lowest possi-

ble registration fee, \$50.

Any profit realized at the end of the seminar is split 50-50 between the cosponsoring state association and APRO.

All seminars will be on Wednesdays, in either the second or third week of the month. Seminars will be limited to one day, and will normally run from 10 a.m. until 4 p.m.

Experience has shown that conducting a state association meeting after the seminar tends to draw a bigger audience to the meeting. Also, by grouping seminars and meetings, interest in the state association tends to stay strong and the organization maintains its viability.

Another aspect of the program is getting one or more suppliers to sponsor all or part of the seminar. For a minimal amount, vendors can get publicity in the seminar brochure and industry newspaper, *RTO Network News*, as well as exposure at the meeting itself.

Functions that are open to sponsorship are the cost of the meeting room, a buffet lunch and/or an after-meeting reception.

— Carolyn Fitzsimmons

their newfound knowledge, motivation and excitement. Watch them put winning strategies into play.

What I really did was find out what my people wanted and needed. I found out they wanted knowledge, they wanted motivation, they wanted drive, they wanted a better way of doing things. And by giving them a way of doing it, allowing them to be creative and to be flexible without having to reinvent the wheel, it has enhanced our company's bottom line. I'm convinced of that.

I gave them something simple: the opportunity to learn. Not at my expense but at my great benefit, both monetarily and spiritually. I don't see how rent-to-own dealers can afford not to educate their people and to continue to educate them. Give them the opportunities to grow, to learn better ways of doing things.

Dealers, don't think you can merely continue to bring back great ideas and your managers will be gung-ho over them. It takes more than that. It takes their participation in gleaning the ideas from a wealth of others. Instead of giving them a glucose injection, give them a transfusion of whole blood. Send them to industry seminars or take them with you.

It will pay off for your company because upper and middle managers will begin to think like you do — the entrepreneur. They become little entrepreneurs and, hopefully, big entrepreneurs as they grow in knowledge and experience. Along the way, they'll make you bigger.

By the way, we've had a very big side benefit to all of this. Our mid-management people are so involved in continuing education and improvement that they've set up classroom seminars on a monthly basis. Store managers, assistant store managers, store assistants, account managers, collection and delivery personnel — virtually everybody has at least one day of classroom training each and every month. This is on top of in-store, on-the-job training. They're all involved now and on the idea bandwagon. Remember: It's not just good ideas, but the implementation of them that produces positive results. *PR*

Mac McCullar is CEO of Lithonia, Ga.-based ATM Enterprises and an APRO board member.



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In Italy, it is said that all roads lead to Rome. In rent-to-own, all roads go back to

Ernie Talley

IT'S BEEN SAID THAT IN ITALY, ALL ROADS LEAD TO ROME. IN RENT-TO-OWN, IT SEEMS, ALL ROADS LEAD BACK TO ERNIE TALLEY.

OTHERS HAVE CLAIMED THEIR SHARE OF THE CREDIT FOR SHAPING RTO INTO THE FAIRLY SOPHISTICATED INDUSTRY THAT IT IS TODAY. CHUCK SIMS HAS BEEN CALLED A GREAT INNOVATOR WITH REMCO'S EMPHASIS ON QUALITY PRODUCTS AND PEOPLE. TOM DEVLIN, WITH THE COMPANY STOCK OFFERING AND THEN NEARLY \$600 MILLION SALE OF RENT-A-CENTER, PUT RTO ON THE MAP FOR GOOD. AND THERE ARE OTHERS WHO MADE IMPORTANT CONTRIBUTIONS TO THE INDUSTRY ALONG THE WAY.

All seem to have one thing, or rather one person, in common: J. Ernest Talley. The 56-year-old Arkansas native is the proverbial fountainhead of rent-to-own. He began building the first chain of RTO stores in the 1960s, sold them and got out of the business by the mid-'70s, and re-entered rent-to-own as the 1990s began.

Nearly every major dealer who has contributed to furthering the rent-to-own industry sprang forth from Talley's employ. This elite group includes Devlin and Sims as the most recognizable members — and also names like Bob Hardesty, Bud Holladay, Mike Kent, Gene Ash, Dan Rudden and Bill Klopp.

They all served their apprenticeships under Talley and later became either owners or members of top management for other RTO companies.

"You could legitimately call him the godfather of the business," said Rudden, a former Ernie Talley disciple who today oversees ColorTyme's 50-plus corporate stores. "Mr. Talley gave me the opportunity to get started and I've always appreciated that. I'm sure a lot of people feel the

same way.

"What happened after we left was always up to us," Rudden added.

The foundation has remained solid for those who graduated from the Mr. T's school of hard knocks.

"Ernie created a ton of entrepreneurs," Sims said. "He had either the ability to attract or develop, I'm not sure which, but he spawned a bunch of successful entrepreneurs — probably more than anybody I know."

Talley's first business was a retail appliance shop in Wichita, Kan. Although it is unclear just who first tried rent-to-own, Talley is responsible for the first widespread use of RTO in the late 1960s. It was out of necessity, since creditors had stopped the practice of making small loans to Talley's customers for the purchase of washers and dryers. Talley found RTO to be viable, and expanded that part of his business outside Kansas. The first stand-alone RTO store was in Tulsa, Okla., and it didn't take long before his Mr. T's stores were opening in parts of the Midwest

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BY

JOHN GORMLEY

Career chronology: J. Ernest "Ernie" Talley

1950s

- J. Ernest "Ernie" Talley and his brother Willie, who is 15 months younger, graduate from Western Grove High School near Harrison, Ark.
- The older Talley brother goes to Wichita, Kan., where he has relatives. Ernie attends Wichita State University and works part-time for Boeing aircraft.
- He becomes a small partner with a cousin in a retail appliance shop. After a year or so, Talley starts his own appliance and television business.

1960s

- Talley is responsible for opening the first RTO store — in Tulsa, Okla. Chuck Sims, Talley's young general manager, oversees the expansion of the Mr. T's chain of rental stores.
- Talley hires winners. Besides Sims, people like Tom Devlin, Bob Hardesty and Gene Ash join the Mr. T's operation. Others, including Dan Rudden, Mike Kent, Bill Klopp and Bud Holladay, come on board as well.

1970s

- By this time, the rent-to-own concept is established as viable. Talley's RTO stores have expanded into the Midwest and, even more widely, the South.
- Talley's organization is the precursor to modern-day RTO companies. The corporate hub remains Wichita. A sophisticated company newsletter keeps store personnel in touch with what's happening throughout the Mr. T's network.
- 1974. At the height of Mr. T's success, Talley decides to sell the chain of 14 stores to his former GM, Sims, who uses them to form the foundation for his Remco empire. Meanwhile, Talley invests in real estate — mostly apartment complexes.
- In 1976, Talley is elected to the first of two consecutive terms in the Kansas House of Representatives. He believes that business people are some of the best candidates for providing voices of reason within government.

1980s

- Circa 1980. Talley is a guest speaker before a meeting in Dallas of RTO dealers who are organizing a national trade association. As someone with experience as an elected politician, he tells APRO's founders — which include former employees Holladay and Sims — about the need for business owners to organize politically.
- After Talley's stint in Kansas politics is over, and since much of his real estate holdings are in Texas, Talley and his family move to Dallas. Younger brother Willie, who has built a successful RTO career of his own, is in nearby Athens, running ColorTyme.

1990s

- As the new decade begins, Ernie Talley has returned to rent-to-own — in two different ventures. He is a partner of the Vista rent-to-own chain, with stores in New Jersey and Puerto Rico. He's also co-owner, along with son Mike, of Talley Leasing. Talley Leasing provides appliances to apartment owners and, in some cases, directly to their tenants under an RTO plan.

and the South.

"Through trial and error he came up with a lot of practices that started an industry," said Devlin. "It (rent-to-own) would never have been there if it wasn't for Ernie Talley in the beginning. And he had the hardest part. It is much easier to take something and refine it and make it better than it is to start it."

Talley clearly has a mind for business. He is remembered as a good salesman and numbers man who also had a knack for effective advertising, but his people skills have been questioned by a few former employees. Some say he could be cold. Others disagree, saying he was merely business-like at all times.

One thing all agree on: Performance was the bottom line. Consistently poor performance meant you didn't work for Ernie Talley very long.

Holladay recounts the legend of the totem pole, which apparently struck fear in the hearts of Mr. T's workers. "Sales meetings for Ernie's rental managers went much like the meetings for the retail guys," said Holladay. "He used to have a little wooden 'totem pole' with wood likenesses of managers stacked on it, totem-fashion. The manager who was last that month was literally on the bottom of the totem pole, which occupied a prominent place right on the table throughout the entire meetings. They said the bottom guy was automatically fired, but I never witnessed that."

However, if you did produce under Talley you got relatively little interference from the boss. "You could ... grow dramatically because he gave you so much freedom and latitude," Devlin said. "If you were any good at all you really could flourish and do very well in his organization."

But don't get the idea that Talley left his employees to sink or swim without some kind of buoy. According to Sims: "One place where Ernie didn't short-change things was training. He invested a ton of energy in training and developing people." Mr. T's also had a fairly sophisticated company newsletter, which was rather progressive at the time.

"He was real open as far as he gave

you the tools to work with and he let you do it," Rudden confirmed. "He was of course profit-conscious, but he'd always give us the P&L statements. You always knew how you were doing. Ernie didn't hold anything back. And he believed in creating change ..."

In 1974, Talley underwent a big change. He sold his Mr. T's chain of 14 rental stores to Sims, his general manager. Sims went on to build his Remco empire. Talley got out of RTO and invested in real estate, mostly apartment complexes.

During this interim, Talley also got involved in politics. In 1976, he won election to the Kansas House of Representatives, where he served two terms. He even spoke at the first real APRO meeting in Dallas, circa 1980. As someone with experience as an elected politician, he advised APRO's founders on the importance of organization in political and legislative affairs.

In this way, Talley had an influence on the early focus of rent-to-own's national trade association. It didn't hurt that he could relate to APRO's founding dealers. After all, he was once one of them. More than that, he was the former boss for a few, like Holladay and Sims.

It's been 18 years since Talley sold Mr. T's. So what is Ernie Talley doing these days? He is involved in the rent-to-own business again — interestingly, in two different ventures. Talley is a partner in the 18-store Vista RTO chain, with locations in New Jersey and Puerto Rico. He is also co-owner with son Mike of Talley Leasing, a service company in six major cities: Atlanta, Dallas, Denver, Houston, Phoenix and Tampa. Talley Leasing provides appliances to apartment owners and, in some cases, directly to their tenants under an RTO plan.

While Sims' Remco developed televisions as the product mainstay and Devlin's Rent-A-Center took the risk to make furniture a profitable RTO addition, forerunner Talley made a name for himself in the '60s and '70s with appliances.

Now that it's the 1990s, Talley is staying with an old staple. He maintains a Dallas warehouse full of high-quality white goods — the inventory for his apartment service business,

Talley Leasing.

Since he has gotten back into rent-to-own during the last couple of years, Talley has considered the differences and similarities of modern RTO compared to the old days. Surprisingly, he says he doesn't see "a lot of changes. It's been dressed up some."

The basics of rent-to-own remain the same as they were 10 and even 20 years ago, Talley believes, although there's one key area that he realizes is different today. Financing.

"I don't think the lenders will ever

(again) give the kind of loans, the big loans, that some of them have over the past 10 years," he said. "So dealers are going to have to get their debt down. I'd suggest that they try to get their debt down to no higher than depreciated assets."

Clearly, Talley has remained conservative. That's true in business as well as politics, where his stint as a state legislator yielded some interesting insights. Based on his experiences, he thinks the business world

CONTINUED ON NEXT PAGE

Ernie Talley

Developed the first rent-to-own chain, Mr. T's. In 1974, sold the company to his general manager, Chuck Sims. Talley recently got back into the RTO business.

Tom Devlin

Talley's most successful former pupil. The cofounder of industry giant Rent-A-Center, Devlin helped make rent-to-own a legitimate part of the business world.

Chuck Sims

Sims used the 14 stores he acquired with the purchase of Mr. T's as the foundation for building his Remco empire. Sims made great contributions to the development of RTO.

Bud Holladay

Formerly a dealer and now a vice president for Alrenco, Holladay has made a difference. He rallied RTO dealers to form their own national trade association, APRO, in 1980.

Bob Hardesty

Today he's the largest independent rent-to-own dealer in the United States, with close to 100 stores. He started his career as a delivery man for Ernie Talley back in the '60s.

Dan Rudden

Rudden currently oversees ColorTyme's corporate stores, which number between 50 and 60. He was a member of the Mr. T's management team during the early 1970s.

Mike Kent

Kent served as a vice president and regional manager in Talley's Mr. T's organization back in 1972. In 1992, Kent runs his own 11-store chain of rent-to-own stores in Florida.

Gene Ash

Ash currently resides in Virginia Beach, Va. He was one of the first to leave the Mr. T's nest, opening his own New Orleans store in 1967. He and Kent later became partners.

Ernie Talley's 'family tree.' A number of former pupils branched out on their own.

Graphic by Joel Mathews

Continued from previous page

attracts smarter people in general than the political world. Still, he acknowledges that it can be tougher to break into politics. He uses this analogy: Few businesses ever achieve 50 percent market share, but to get elected to public office you've got to get 51 percent of the vote.

"If a lot of business people would get involved (in politics) it would make a difference," Talley said. "There's a great need for people with business backgrounds. A lot of them (politicians) just don't quite have the mentality to understand the circumstances of their actions."

Talley's actions have caused good results, at least for the once-fledgling business that has evolved into a full-fledged industry. He will probably best be remembered for the people he once tutored: the Devlins and the Sims and the Hardestys. These people developed modern-day RTO.

Ironically, they have ended up teaching their former master. Because Talley, after an almost 18-year hiatus, has returned to rent-to-own. Perhaps all roads lead back after all.

PR

John Gormley is APRO's director of communications and editor of Progressive Rentals.

Ernie Talley started an industry 30 years ago. How did rent-to-own begin? Where has Talley's path led him? What are his beliefs? We'll let him provide the answers.

Uncle Ern

BY NOW, YOU'VE ALREADY READ SOMETHING ABOUT J. ERNEST "ERNE" TALLEY. BUT THE PICTURE YOU'VE BEGUN TO FORM OF HIM HAS BEEN FILTERED THROUGH THE INTERPRETATIONS AND WORDS OF OTHERS.

LET'S GIVE HIM THE OPPORTUNITY TO TELL HIS OWN STORY IN THIS EXCLUSIVE, ONE-ON-ONE INTERVIEW WITH *PROGRESSIVE RENTALS* ...

PROGRESSIVE RENTALS: *Tom Devlin, Chuck Sims, Bud Holladay, you know, guys like that, say the original rent-to-own concept came from Ernie Talley. There is a rumor that Mike Kent sold an appliance to a customer and after the appliance was delivered, it was discovered that the customer's credit was denied. So you tried to figure a way out of this dilemma.*

like that. In that business we sold the paper to Borg Warner and General Electric. We had a high percent of turn-downs. But I wanted to do something for those people, so we would take them to our used department and say, "Suzie, we have this and we can let you have it for a down payment of \$20." We tried to figure out a way to get those people some merchandise since the lenders wouldn't approve their credit. All we had to do is figure out a way to collect and handle the account and

TALLEY: I don't really think we started

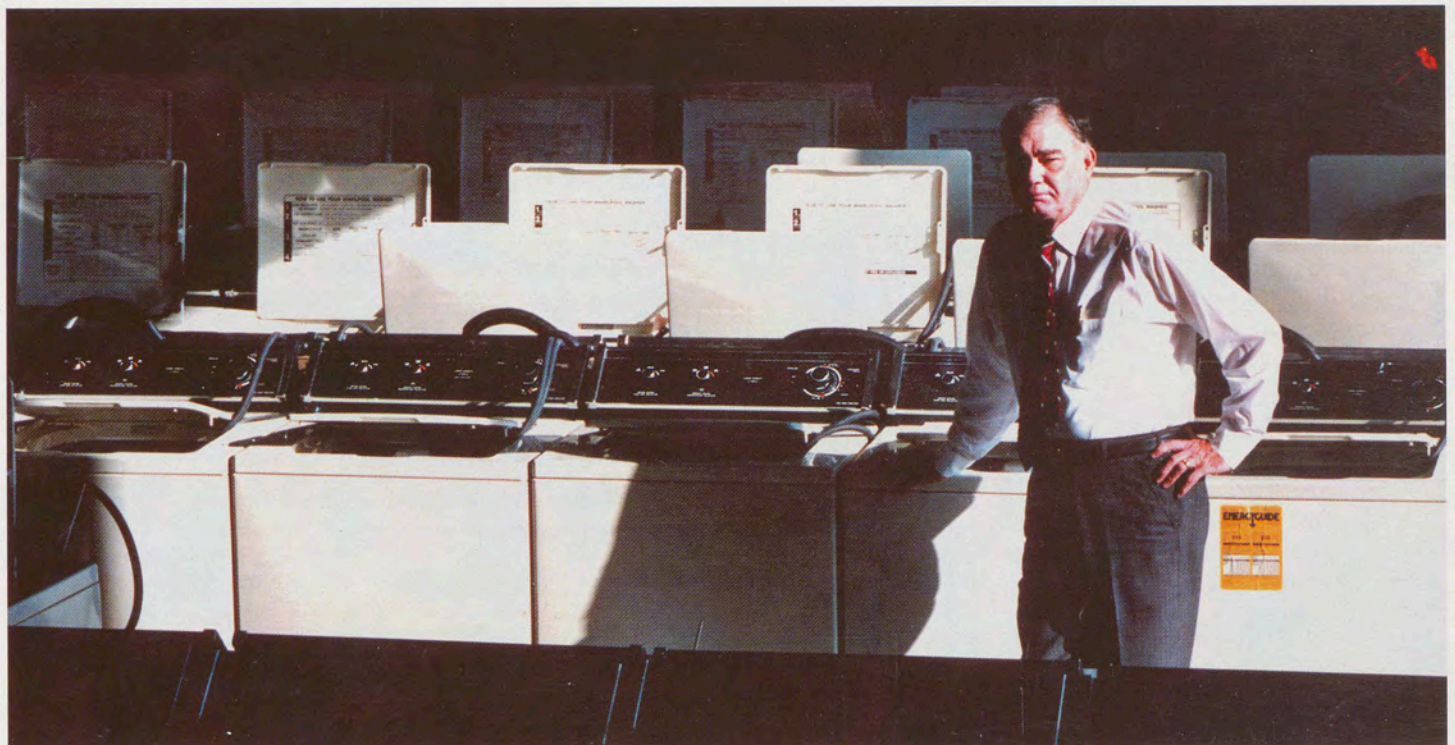
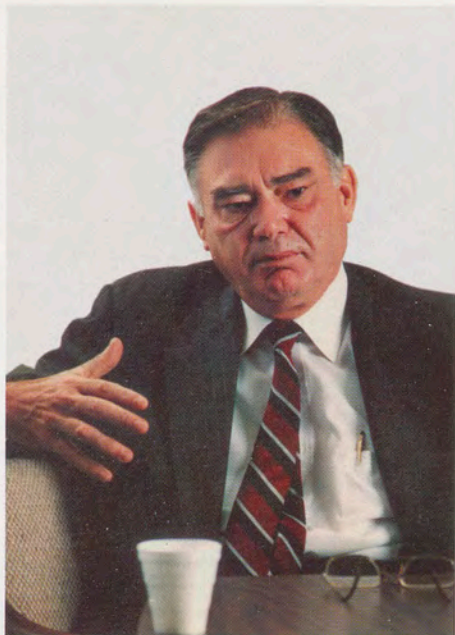


Photo by Tony R. Bennett

Ernie Talley found success in appliances, after opening up his first retail shop in the 1960s and later discovering the RTO option.



"We set up a department in the back room of the appliance store. From there on, we referred our customers who couldn't get financing to that department."

we could go ahead and give them merchandise.

We set up a department in the back room of the appliance store. From there on, we referred our customers who couldn't get financing to that department.

Then one day I said to Chuck, "You know, we might be able to make some money. Why don't you go to Tulsa and open up a rental store?" Since Chuck was one of my best salesmen, I knew he could handle the business. He did and business was pretty good. From there, we took it to Oklahoma City and it worked there, too.

PROGRESSIVE RENTALS: *When you started expanding your chain of stores, it was with the RTO concept?*

TALLEY: We didn't know what the word RTO meant, for sure. But yes, when we expanded out of Wichita, it was not as a retail appliance store, but as a rental appliance store.

PROGRESSIVE RENTALS: *Look what rent-to-own has become today. It's a \$3.5 billion-a-year business. RTO has certainly filled a void in the marketplace.*

TALLEY: Yeah, it's a terrific deal for our customers. If it wasn't for rent-to-own,



"I think you ought to have an independent person shop Sears for an appliance or any rent-to-own product ... we found ours to be only 15 percent higher."

they wouldn't have much, would they?

PROGRESSIVE RENTALS: *Consumer advocates charge that rent-to-own prices are much too high. How would you answer their charges?*

TALLEY: I think you ought to have an independent person shop Sears for an appliance or any other rent-to-own product. Recently, we compared our prices to Sears and found ours to be only 15 percent higher than theirs. If a Sears customer has to let the appliance go back, it's going to ruin their credit. There's a hell of a lot of difference there, and I don't mean the dollar amount.

PROGRESSIVE RENTALS: *Tom Devlin told me that it is easier for someone to build on a concept than it is to create a totally new concept, like rent-to-own.*

TALLEY: We created it and Tom, Chuck and some of the others dressed it up. Legally it was a nightmare, but marketing really wasn't that tough. There really weren't that many big hurdles. We just took one step at a time, took what we learned, and immediately made whatever changes were necessary, and then we'd start doing that. You know, we'd say this isn't working and then we would say,



"If there's something that isn't working, you've got to change it. You can't wait around. I never waited, and Tom (Devlin) probably didn't either."

"Okay, let's do it this way." I could be out riding in a truck with an area manager in Houston and get an idea, and say, "Boy this will work." So I'd call my secretary and have her send a memo out to all my people. New ideas were developed like that and the information was conveyed to the entire management team. And we would roll on.

PROGRESSIVE RENTALS: *Sounds like shifting on the fly.*

TALLEY: Yeah, we could make a little change and have it out there working real fast. And, usually, we had all the guys back in the office on Saturday mornings and we would meet and get everything rolling to take off with the next week.

PROGRESSIVE RENTALS: *Successful businesses are those that can react quickly to any change in the market.*

TALLEY: Yeah, you've got to. If there's something that isn't working, you've got to change it. You can't wait around. I never waited, and Tom probably didn't either. If you think a new way will work better than the old way, go out and try it or have one of your people go out, and roll.

CONTINUED ON PAGE 30

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inment. Again.

Associate Member

Life with Ernie in the '60s, '70s

Photo courtesy of J. Ernest Talley



This photo of the Mr. T's management team was taken in the summer of 1972. Notables include Tom Devlin, bottom row left; Ernie Talley himself, two over from Devlin; Bud Holladay, middle row directly above Talley; Mike Kent, to the immediate right of Holladay; Bob Hardesty, top row far left; and Dan Rudden, top row far right.

ERNIE'S RETAIL APPLIANCE STORE IN WICHITA, KAN., IN THE EARLY 1960S WAS KNOWN FOR AGGRESSIVE PRICING AND A WILD CREW OF SALES PEOPLE. WHEN ERNIE WOULD NOTICE A SALESMAN NOT HUSTLING, HE'D GIVE HIM A HANDFUL OF NICKELS AND TELL HIM TO "GO NEXT DOOR AND PLAY PINBALL — YOU'RE IN THE WAY HERE."

•••••

Usually, Ernie just transferred bad managers to some backwater hole where they couldn't do any worse than the previous manager. It was so hard to lose money in rental in those days that just showing up took care of 90 percent of the problems.

An oft-repeated tale of how rent-to-own really got started in the Midwest involved Ernie's retail sales manager, Mike Kent (now operating National TV Rentals in Florida). When Ernie was on a vacation, Mike allegedly sold a washer to a person who didn't qualify for financing, but nobody found out until the machine was already in the customer's house.

So Mike set him up on a "rent-to-buy" deal that he invented on the spot

BY

BUD HOLLADAY

and they took off from there. This may be pure fiction, but it makes a terrific story (sort of like RTO itself).

Ernie's managers used to convene in Wichita and compare numbers. He only wanted profit and units on rent. Nobody called it BOR then, I believe. He was one of the first to provide managers with monthly P&Ls and pay them on profit. If you didn't make profit, you didn't make money.

Ernie had a knack for letting good people run with the reins and they always produced. Others complained he was too demanding. At every meeting, at least one manager would get mad and quit in front of everybody; the rest would just get a fresh cup of coffee and go on with the meeting. It was no big deal. And the stores always seemed to run as usual.

Mr. T's ad agency once came up with a great idea. This was about 1970 or so. They printed up tens of thousands of beautiful bumper stickers advertising MR. T's. However, nobody told them none of our customers had cars. So we put the stickers on buses, telephone poles and even on the backs of merchandise. In

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PROGRESSIVE RENTALS: *You were always big with TV ads and had an emphasis on your products, right?*

TALLEY: Yeah, we started with TV in Baton Rouge. That was always a good little market. Tom (Devlin) was the store manager and Bud (Holladay) was his boss. At first we were doing mostly radio. As we got larger, Bud convinced me that we should have an agency do our commercials featuring the quality of the products. Then, as now, the production quality of TV commercials was very important.

PROGRESSIVE RENTALS: *Did you spend much time out in the field in those early days?*

TALLEY: Yeah, I did a lot of what I call "curbstone evaluating." I'd go work with a guy for half a day, stop for a sandwich and say, "You know, you did this good, you didn't do this right; here's how you do it." And, I always felt like I was being real helpful. It always worked for me.

PROGRESSIVE RENTALS: *Tell me about the "totem pole" sales meetings.*

TALLEY: Rankings have always been a big deal with me. I think having a rankings system is a big motivator. It started back in the appliance business. During the summer we would have a lot of salesmen and in the fall I had to cut back. My program was pretty simple; I mean, I said, you know, the three low men go. I don't place as much emphasis on lows now as I do the highs. Obviously, the low person may not be around next year, but you've got to put a lot of praise on the top.

PROGRESSIVE RENTALS: *Chuck Sims has said that you've had the best graduating class to come out of any rent-to-own dealer's organization. Chuck believes you must have some innate ability to attract and develop excellent entrepreneurs.*

TALLEY: Well, I tested all prospective employees and only hired quality people. Then I gave them the best training I could provide.

PROGRESSIVE RENTALS: *Fascinating. You were really good at hiring people.*

TALLEY: Well I put all of my people through a personnel test before we hired them. Once they passed it, then I went to work on training them.

PROGRESSIVE RENTALS: *What skills*

did you test for?

TALLEY: The test I used, and still do, was developed by Associated Personnel. The test was developed by taking a profile from actual presidents of a number of large companies. So in using this test, you can set criteria of how close prospective employees come to that profile. Their test results give me a good idea about their management abilities. You can talk to a guy for a half a day and you still don't know much about him. But my test tells me, you know, real fast. It works. We've introduced that system at Vista and it's turned our profit around.

PROGRESSIVE RENTALS: *Does the test tell you anything about their ability to solve problems?*

TALLEY: Oh, yeah, it rates their ability to use logic. It must have 10 or 12 categories. Obviously, to get a decent score, they have to do pretty well in all categories ... helps you cut out all the real dumb and far-out guys, who aren't going to learn.

PROGRESSIVE RENTALS: *Interesting, very interesting.*

TALLEY: Devlin took it, well everybody took it. Tom did good on it, by the way. Obviously.

PROGRESSIVE RENTALS: *You grew up in Arkansas. What attracted you to Wichita, Kan.?*

TALLEY: I left Arkansas when I graduated from high school and moved to Wichita. I had relatives there and wanted to attend Wichita State University. Also, back in those days, aviation was the booming industry, and Boeing Aircraft employed 30,000 people in Wichita. And that also attracted me to Wichita.

PROGRESSIVE RENTALS: *So that's where you started?*

TALLEY: I was working for Boeing when my cousin moved to Wichita and opened an appliance business. I went in with him as a minor partner and a salesman. I was with him a couple of years before going into business for myself. During those eight years I had my retail appliance store, we developed a good business with rentals. I sold the appliance business and crossed over to the rental business.

PROGRESSIVE RENTALS: *I understand that today, you own several apartment*

CONTINUED ON NEXT PAGE

Hardesty's one of more successful Mr. T's grads

BY

JOHN GORMLEY

HE'S AT HIS DESK, FEET PROPPED UP, PORING OVER THE LATEST NUMBERS. HE IS DRESSED IN A JOGGING SUIT INSTEAD OF A BUSINESS SUIT. THE CHOICE OF ATTIRE IS EXPLAINED BY A STAFF "ACTIVITY DAY" SET ASIDE FOR OUTDOOR RECREATION — AN AFTERNOON SOFTBALL GAME AT NEW ORLEANS' CITY PARK.

•••••

Bob Hardesty is a hands-on dealer and he does it all, even though he probably doesn't have to. After all, he started out in the ranks of front-line workers. Hardesty has been manager at virtually every level of a rent-to-own operation. And he knows an RTO company is something that can quickly slip away, if you're not careful.

Hardesty's ritual of going over the reports is interrupted when his secretary ushers me in and reminds him of the scheduled interview. He doesn't remember the appointment, but stops what he's doing anyway and begins telling his (RTO, at least) life story.

Hardesty is a product of the Mr. T's school of hard knocks. Hardesty worked for Ernie Talley during the late 1960s and early '70s — formative years for RTO.

"There was a lot of respect," replied Hardesty when asked about his relationship with Talley. "One thing he allowed me to do was present my thoughts and ideas about what could happen in the rental business."

Starting as a delivery man in the 1960s, Hardesty made his way up the ranks in Talley's organization and, by the mid-'70s, was a dealer working for himself. He is part of a distinguished Mr. T's graduating class that boasts alumni like Chuck Sims, Tom Devlin and Bud Holladay.



Bob Hardesty started out as a delivery man for Ernie Talley. Today, he's his own boss with nearly 100 stores.

Today, Hardesty is the largest independent RTO dealer in the United States, with 96 stores in 13 states comprising his Renters Choice chain. Along the way he forged a business relationship with another Talley, Willie, the head of Athens, Texas-based ColorTyme and Ernie's brother. Hardesty was the largest ColorTyme franchisee, reportedly accounting for more than 30 percent of the company's franchise income, but broke away last summer. He was also a stockholder in ColorTyme Company Stores.

"I became a franchisee as well as a stockholder at ColorTyme, with the expectations of doing something profitable on that end," Hardesty said. "It doesn't work for multiple-store owners — the franchise doesn't. It is not beneficial for the major player because you're doubling so much of your expense."

A classic case study on the making of an entrepreneur, Bob Hardesty's

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complexes and lease appliances to your renters? That seems like a terrific off-shoot.

TALLEY: The name of the company is Talley Leasing. Really, my son runs it. It's mainly leasing washers and dryers to apartment owners. It's not rent-to-own; it's a service business much like the rental of furniture is to apartment owners. It's really not rent-to-own. We service apartment complexes in six cities.

PROGRESSIVE RENTALS: *Talley Leasing is a larger enterprise than I thought.*

TALLEY: Yeah, I mean it's kind of interesting. You start doing business with a guy that owns apartments in Dallas and then he wants you to service his apartments in Houston and so you go there. Then he says he's got some apartments in Phoenix and wants you to go there. The business kind of builds itself because our customers in one market want us to service them in their other markets.

PROGRESSIVE RENTALS: *How did you get started in this business?*

TALLEY: Well, since I owned apartments and did rent-to-own, it is an idea that has worked pretty well. At one time, I owned 4,000 units.

Another off-shoot that we're testing now is leasing washers/dryers to owners of apartments, where they have hookups. We've found some owners were saying it's too much trouble. So we came up with the idea of advertising to the residents in these apartments to call us about our rent-to-own program. We expanded our test marketing to a larger area in September. But it's too early to tell if we will open this up to a broader program.

PROGRESSIVE RENTALS: *Are you only leasing appliances, or are you considering leasing other traditional rent-to-own products?*

TALLEY: Oh, no, we're testing TVs, stereos and refrigerators to see how it goes. It will be a while before we can determine the success or failure of this.

PROGRESSIVE RENTALS: *In addition*

to Talley Leasing, you're involved with another chain of RTO stores?

TALLEY: Yeah. When I got out of the real estate business, I looked around for something else to do. I made contact with a rent-to-own firm in Wichita by the name of Vista and decided to buy in as a silent partner. You know, I didn't want to be very active in the business. As it turned out, after about 90 days, I decided that either the partner should go or I should go. So I wound up buying out the partner. The home office is next door and I get reports daily on the operations. I probably visit the stores every six months. We have 18 stores in New Jersey and Puerto Rico.

PROGRESSIVE RENTALS: *When you sold Mr. T's to Chuck, you entered politics. Tell me how that happened and what motivated you.*

TALLEY: Well, when I got out of rent-to-own, I was paying 70 percent taxes and was pretty frustrated with the government. So, I asked myself what can I do about that. Well, what I could do about that was to run for office, get elected, and do what I could. I went to see my state representative and asked him to let me know if he ever decided not to run for reelection. Within a few months he called me and said he was going to run for the Senate, and asked me if I wanted to run for the House. And I did. The principals of getting elected to office work pretty much like business. The only difference is, on election day, you've got to get 51 percent of the market. Forty-nine percent is no good.

I served two terms as state representative in Kansas. It is pretty frustrating once you're there. Government just doesn't have enough business people. It's a slow process. During my second term, though, I served on the Ways and Means Committee, so I had more input on the state's budget, as well as the universities. I had more fun that term, trying to hold down the state's total budget. More business people should get involved in elective offices ... It's not that complicated, you've just got to make the effort. I served two terms, beginning in 1976. After two terms, I came back home. Once again, I got frustrated, this time with my school district. So I ran for the school board and got elected. At least I didn't have to travel very far on that one (laughs).

But you really can make difference if you get involved. If a lot of business people would get involved it would make a difference. There's a great need for people with business backgrounds (in government).

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PROGRESSIVE RENTALS: *I bet serving in elected offices provided a real education of a different sort.*

TALLEY: Yeah, probably the biggest misstatement ever made is when someone says all politicians are alike. There are a lot of very good people in politics and a lot of smart people in politics. But there are a lot of dumb politicians and there are some that are not so good. It's very hard for a voter to tell back home.

PROGRESSIVE RENTALS: *Did you know that APRO's executive director, Bill Keese, and our director of government affairs, Ron Waters, are both former Texas legislators?*

TALLEY: Well that's why they're so active. That's good. That experience is great for the association because they understand politics and that's important for our industry.

PROGRESSIVE RENTALS: *The major problem in the rent-to-own industry today is financing. What do you think RTO dealers can do to help themselves in this environment?*

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TALLEY: The best thing they can do is work hard in improving their financial statement, and start cultivating new banking relationships.

This financing problem is going to last a while. The fact is, in my opinion, a lot of the rent-to-own stores are over-financed. They have too much debt and it was given to them, I think, based on what rent-to-own stores sold for a few years ago. This debt thing has to get back down to earth. This means to grind it out with the stores and work on getting debt down rather than working on putting in new stores.

PROGRESSIVE RENTALS: *Several dealers I've talked with have credited you with giving them the confidence to get in there and start developing themselves.*

TALLEY: I'm one who believes in giving all the numbers to all the personnel and getting them involved from the ground up as far as budgets, overhead and everything else. That tends to help them later in life, for sure. But it also helps me in the meantime because they understand the how's and the why's of producing good statements. I suppose that after they did that for awhile, all they needed was to go out, get the money and go into business, knowing everything I know.

PROGRESSIVE RENTALS: *These same dealers told me that once you had a certain comfort level with them, you would let them go and do their job the way they thought they should.*

TALLEY: After all, if they could produce a good bottom line, why should I be in there messing with them that much? I could go and spend my time on something else.

PROGRESSIVE RENTALS: *Chuck told me that Ernie Talley would chip away the ice for you and let you jump in.*

TALLEY: (Laughs) Yeah, I believe in leadership ... When I sold to Chuck, I knew that here's the one guy that can take this and run it with it and make these payments. People can do a lot more than they think they can do, if they are encouraged, you know.

PROGRESSIVE RENTALS: *How do you feel about being the fountainhead of this whole industry?*

TALLEY: Oh, I've never really thought about it one way or another. I think it's great that the industry has grown like it has.

PR

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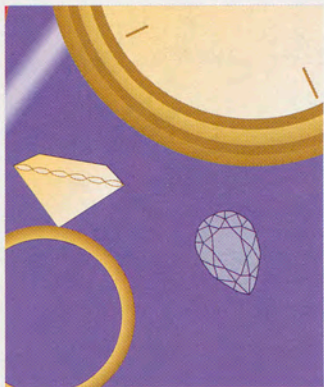
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This could, literally, be the million-dollar question:

Is rent-to-own jewelry for real?

FOR SEVERAL YEARS NOW, THE QUESTION HAS BEEN: "CAN JEWELRY MAKE THE GRADE IN THE RENT-TO-OWN INDUSTRY?"

THE 1987 APRO CONVENTION ATTRACTED FIVE JEWELRY VENDORS TO THE EXHIBIT HALL, A FIRST FOR THE APRO SHOW. WAS IT A WASTE OF TIME?

Apparently not. The 1991 trade show in Las Vegas had 16 jewelry exhibitors. Clearly, more and more RTO dealers are taking the plunge into the gold and diamond pool.

Those who have taken the plunge are pleased with the success of rent-to-own jewelry. Others are skeptical and don't believe they need a new product line.

Curtis Brooks, chief operations manager for T&S Import Co., spent two-and-a-half years developing a rent-to-own jewelry program. He says RTO dealers have opened their eyes to jewelry, because there's potentially high profits to be made.

"They (the dealers) see that jewelry has a very high profit margin for them. It's an area where they can boost lagging sales by offering some other product category to entice their current or past customers back into a second rental," he said.

Brooks says a jewelry line is right for some dealers and not for others. He says it's wrong for some dealers, because they simply don't want to manage the product.

"They want something they can throw out there and not have to worry about. But jewelry is somewhat more complicated than that," he said.

Richard Bartel, owner of Rentown USA, says the reason his RTO company hasn't

gotten involved with jewelry is because it's doing well with the traditional product lines: furniture, electronics and appliances.

"There's so much new furniture that can still be put into customers' homes. I'm not in a situation where I have to look for additional BOR, because I'm getting enough increase right now just through the basics," he said.

Bartel also believes that educating employees about jewelry would be time-consuming as well as a hassle.

David P. David, general manager of Full-O-Pep Appliance, Inc., has incorporated a jewelry line in his stores, but accomplished it without investing the money in a full-blown type of jewelry program.

"Rather than buying into the full-size jewelry cases, we've built our own cases locally. They're small, which means by having that small-size case, you can arrange a nice display without having to have \$10,000 or \$20,000 worth of jewelry to fill it."

At least one company offers a kind of try-before-you-buy alternative for rent-to-own dealers, who may be wary of large inventories and the costs that go along with them. Under this type of program, the RTO store carries inexpensive "sample" jew-

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BY

LAURA MALLON

elry pieces that the customer can choose from (see October-November *Progressive Rentals*, page 42). These pieces look like the real thing. If the customer chooses a ring, store personnel help the customer with "pre-sizing." Then, the store clerk calls the supplier's 1-800 number to order the "real" jewelry piece. It arrives next day, already sized and waiting for the customer at the store.

This approach offers the major benefit of up-front savings in inventory costs, but there can be drawbacks that dealers should consider.

Claudia Filloramo, general partner of Rent-A-Rock, says certain popular jewelry styles in rent-to-own cannot be accurately duplicated in sample jewelry, because of delicate designs. Such sample jewelry can also cause an adverse affect on perception of value in the entire jewelry line. One example of this is that gold jewelry is heavier than dipped silver and has a more substantial look and feel to it than is reflected in sample lines. In general, samples tend to show wear very quickly and can give the customer a "cheap" impression. There is also the chance of mixing live and sample pieces at the store.

Filloramo believes dealers should ask themselves how much money will be tied up in "non-value" items, especially when certain styles don't move.

"A 10-store chain with six non-movers at a \$50 (per piece) cost would have \$3,000 tied up in valueless materials," she said.

Rent-to-own dealers must decide for themselves whether or not they want to give jewelry a try and — if they do — what level of investment is best for them.

While dealers Bartel and David have taken more cautious approaches, Jack Callender, owner of Television Management, Inc., got into rent-to-own jewelry about five years ago — and he's done it in a big way. He says he got started in it because he needed another rental item.

"The traditional TVs, stereos and furniture margins were getting beat down some and we started losing customers, because we didn't have anything else to offer them. Now, about 20 percent of our business is in jewelry," he said.

Callender says the way jewelry is

Rent-to-own dealers must decide for themselves whether or not they want to give jewelry a try and — if they do — what level of investment is best for them ...

Jack Callender says the way jewelry is merchandised and displayed is very important, so you've got to be willing to devote adequate time to make it pay off ...

Mick Walts says changing the store displays on a regular basis is vitally important for rent-to-own jewelry ...

Those who have taken the plunge tell us rent-to-own jewelry is here to stay.

merchandised and displayed is very important, so you've got to be willing to devote adequate time to make it pay off.

"We mention jewelry on almost every ad we do, whether it's TV, radio or direct mail. And we try to make our jewelry case look like it would if you went into a jewelry store."

Mick Walts, jewelry manager at Alrenco, agrees. He believes "an empty case is a dead case."

Walts says changing the store displays on a regular basis is vitally important for rent-to-own jewelry. "When I buy new inventory, I bring up the point of how many jewelry stores have the same styles year after year. Rental customers come in the stores at the very least once a month. If they see the same styles, week after week, it's going to get to the point where they don't even consider looking at your jewelry case, because they'll just assume it has the same stuff in it. You've definitely got to have new, fresh styles in there," he said.

Television Management and Alrenco have taken the plunge into rent-to-own jewelry and seem to be successful, but it didn't happen without good organization and research.

Bill Johnson, president of Southern Rings, a supplier out of Metairie, La., says deciding on a jewelry supplier is an extremely important process, since having a quality product can make or break a business.

"The primary thing dealers have to look for is if the supplier is the producer or the manufacturer of the mer-

chandise. There are a lot of third-party people. What you have to have is somebody who can produce jewelry from start to finish under their roof. By doing this, a customer can be pretty much assured of receiving a consistent quality product."

Another thing to look for in a jewelry supplier, Johnson says, is dedication to the client — you.

"At the beginning, you should ask: 'What happens once I buy? Will you train my people?' It's important that you have your questions answered and it's important that the jewelry suppliers maintain a relationship with your rent-to-own employees; train and re-train your people," he said.

As well as considering the dedication of the jewelry suppliers, it's also important to consider the dedication of the rent-to-own employees, Johnson says.

"I think enthusiasm has a lot to do with it. As long as the management has enthusiasm and has set goals as to what to do with the program, it has the potential for success."

Those who have taken the plunge tell us rent-to-own jewelry is here to stay. It may not be for some, but research says it's becoming increasingly popular.

Jack Callender believes rent-to-own will affect the small retail jeweler much as it has the small appliance dealer. "They're not around so much anymore. Rent-to-own is."

PR

Laura Mallon is a recent University of Texas graduate in journalism — public relations and a former summer communications intern at APRO.



A nuts-and-bolts approach:

Making RTO jewelry work

MANY RENT-TO-OWN DEALERS ARE SUCCESSFUL WITH JEWELRY, WHILE OTHERS HAVE HORROR STORIES TO TELL. WHAT ARE THE DIFFERENCES IN THE TWO, AND HOW DO YOU KEEP FROM FALLING INTO THE MORASS OF AN UNSUCCESSFUL PRODUCT INTRODUCTION?

We'll cover the nuts and bolts of successfully renting jewelry, with a brief look at some of the major errors that have been made — so you don't have to make them all over again.

Success in any endeavor is the result of making a series of correct decisions, effectively implementing those decisions, getting the feedback from the field, correcting the course and making sure that the directed action is in fact taking place in the field.

Failure is always a result of invalid decisions, from the rash, both-feet-in-first kind to the exact opposite — no decision; don't know which way to turn. Worst of all, you can come up with great answers and highly innovative plans, but no execution in the field.

To make a series of decisions implies the existence of a series of relevant questions. If the questions are answered correctly and implemented with vigilance and vigor, the result will be a level of success in direct proportion to the amount of action taken. As with any new product introduction, it takes time to identify the key questions. After that's done, it takes even longer to pick the right answer from the myriad of seemingly valid answers for RTO and your company specifically.

Over the past two-plus years I have, while consulting with major jewelry manufacturers and national RTO chains, iden-

tified the key questions dealers should ask and answer.

How much money do you need to present the product?

In a small town with little competition, \$7,500 in product and \$750 to \$1,000 for case, pads, lights and accessories will do the job nicely. In the "average" town store (500 to 700 BOR; balance on rent), \$10,000 to \$12,000 in product with \$1,000 to \$1,500 in case, pads, lights and accessories gives a very strong presentation. In large stores (more than 1,000 BOR), \$12,500 to \$15,000 in product and approximately \$1,500 in case and accessories will do a great job.

How much of what should you buy?

The percentage of each product category should be roughly 20 percent ladies' fashion, 20 percent men's fashion, 37 percent wedding (trios, duos, bridals, solitaires), 22 percent chains and bracelets, and 1 percent other (pendants, charms, etc.).

How do you pick the right jewelry and what to charge?

This is a more difficult question. You need to be competitive, but to make good returns on your investment you need to

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BY

CURTIS **BROOKS**,

G.G.

average five times markup. You also must present a quality that is comparable to your local credit jewelers (Zales, Gordons, etc.). This will enable you to win the trust of your customer.

Currently, the predominant karat of gold in the market is 14. However, there seems to be a shift to 10 karat in chain and heavier gold weight pieces. In diamond quality I suggest a borderline eye clean (top I-2 to SI-2), commercial white (H-K color) and of good proportions (commercial cut). This quality represents 90 percent of the diamonds sold in the United States and I see no reason to try and create a new trend.

As for picking the right styles, there are several things to consider. If you don't have an experienced jewelry buyer on staff then you have to find a supplier you can trust. If you and your supplier have a dollar-for-dollar exchange agreement covering the entire period of your relationship, and you're comfortable with their reputation, then let your supplier pick the styles you need. If you don't or you're not, look further for your supplier. Your supplier should be able to give you the best rental pieces based on reorders he's had over the past several months.

But even when your supplier is

picking the styles, you still need to determine the rental rates on the various pieces. The difficulty here is that you need a five-time markup to make a profit, good-quality jewelry to attract customers and, at the same time, remain competitive by still hitting the popular rental rates.

Prime rental rates for rings shifted downward over the last part of 1991 to center on the \$12.99 at 52 weeks and \$14.99 at the 52- to 65-week range. If you've chosen the wrong supplier their selection will be poor in these categories and the rings will be so small they won't carry the cost to the customer.

If you are debating whether to mix colored stones in with your diamond collection, the answer, in my opinion, is no. You are a specialty supplier of jewelry, not a full-line jewelry store. In this country, 90 percent of the ring business is diamonds and gold, not emeralds, rubies and sapphires.

Picking the right jewelry is essentially the same as picking the right supplier.

How do I pick a good supplier?

There are several criteria a supplier needs to meet before he is even in the

running for your business. One of the most important is competitive price for quality merchandise. You need to know the exact price you are charged by a supplier and how that compares to other suppliers for the same quality. Again, do they offer a dollar-for-dollar exchange policy for the full term of the relationship? Are they really equipped to teach your staff to sell diamonds and gold, or are they just going to give you a lot of gemological hocus pocus they think will pass for training?

Do you believe they are genuinely committed to your success, or are they really only in it for the dollars? Do they have a great reputation backed by references you know? After the answers to all of these questions are yes, then the final question is: Do they have enough experience with multiple-store locations to foresee my problems, interpret them and then do whatever it takes to solve the problem?

How do I train and maintain that training?

This is of major importance because jewelry is different than most other rental products. To bring jewelry above

CONTINUED ON PAGE 47

Inventory and profit: Finding the balance

How rent-to-own jewelry is handled varies greatly from company to company, store to store.

In some RTO stores, even though jewelry is part of the product lineup, there is little or no incentive for managers to push it.

This can happen when a store manager is paid on incentives to keep revenues high and costs low, including inventory purchases.

For this reason, store managers may resist ordering more jewelry when the cases are getting barren. And that jeopardizes the product's chance for success at that store, while minimizing the company's overall profit potential.

"These people were being paid based on the depreciation of a product in their business," said one RTO jewelry supplier. "It was to a point where the managers were controlling the product flow into the store ... they were not successful with jewelry because it was not beneficial to them personally. So it hurt the chain, basically."

Dealers can improve this situation by setting up a corporate-level position to manage jewelry. Alrenco, a New Albany, Ind.-based RTO company with 37 stores, has done just that. Mick Walts, jewelry manager, monitors Alrenco's growing program and keeps it running smoothly. He says jewelry is now in approximately half of the company's stores.

"There are a couple of different theories here," said Walts. "A store manager, if he's getting a bonus on profit, wants to keep his inventory

as low as possible to keep his costs down to make more money."

On the other hand, store managers who work under a different type of compensation plan usually request more jewelry when it's time to restock, Walts adds. "I also have the manager who is constantly calling me up wanting inventory, because he knows it's a good product. Jewelry can help their bottom line, so smart managers like it."

Walts points out the need for balance. "It seems to be more so in jewelry than with the other products, but you must have a good variety for the customer to choose from — or you end up losing the sale."

His job description, in one sentence? "My goal is to maintain the balance between cost of inventory and variety of selection for the customer," Walts said.

— John Gormley

Supplier's many problems leave dealers, retailers holding the bag

EWC bankruptcy rekindles doubts on service contracts

THE DEMISE OF EWC, INC., AN OKLAHOMA CITY-BASED SERVICE CONTRACT SELLER, DURING THE SUMMER OF 1991 LEFT A LOT OF RENTAL DEALERS AND A LOT MORE RETAILERS HOLDING THE PROVERBIAL BAG. THIS TIME THE BAG COMES IN THE FORM OF TENS OF MILLIONS OF DOLLARS IN PAID-FOR SERVICE CONTRACTS COVERING MILLIONS OF ELECTRONICS PRODUCTS.

Suddenly, there's no money left to pay for repairs over the next three to five years — and maybe beyond. It remains to be seen where the ultimate responsibility will lie for the product repairs. All the customers know is that they have written documents showing paid-up coverage for which they paid good money and a supplier on the other end that is broke.

Maybe in this day of failed savings and loans, failed and failing banks, and failing insurance companies, these customers will wax philosophical at the cruelties inherent in a free marketplace, lick their wounds and hope their TVs don't break. More likely, however, the first time the TV breaks and doesn't get fixed, they will find a mean plaintiff's lawyer who will help them join together and start suing everybody they can find, including the companies who sold the policies. If that is the case, it may be a few years before the final responsibility for the repair obligations gets decided by a federal judge somewhere.

Even if the rental dealers and retailers who sold these policies can escape liability legally, if these companies refuse to keep their customers happy by making good on promised repairs, the loss of good will in a market could be staggering.

Whether rental dealers had any policies with EWC, Inc., or not, news of the EWC story has caused everyone to reflect on the

place of service agreements, maintenance agreements and extended warranties in the rental industry.

The EWC fall was hardly the first service contract company to fail under suspicious circumstances. The history of the service or extended warranty industry is dotted with similar, although smaller, failures. The concept sprang up in retail at a time when margins on hard goods were eroding and retailers were hungry for new profit centers. The intangible product of extended service promised huge profits and proved to be a relatively easy sell.

Customers were offered convenience and security at a relatively modest price. Even consumer advocates could not say with one voice that extended service agreements were a bad idea. Rather, they unimaginatively suggested that consumers carefully evaluate the costs of an extended service contract versus the likely cost of actual repairs.

The EWC story

EWC was one of the largest, if not the largest, suppliers of service contracts in the country. Founded in 1983 and using an aggressive network of 150 distributors and agreements with 3,500 service centers nationally, the company attracted accounts like Wal-Mart, the nation's largest retailer, Sam's Wholesale Club and Curtis

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BY

ED WINN III

Mathes Corp. The company may have sold policies to as many as 15,000 retail and rental outlets. When it filed for bankruptcy protection in July of 1991, there were three million service contracts outstanding on everything from consumer electronics, home appliances and heating and air conditioning systems, to satellite systems and car telephones and radios.

According to a court-appointed auditor, claim estimates over the next three to five years on all contracts total \$35 million to \$67 million. EWC is owned by Baird Trice, who also owns American Lenders' Insurance Co., the company that insured the EWC contracts. It is reported that American Lenders' had a \$1 million reinsurance policy with Lloyds of London. That's hardly sufficient to pay the kinds of claims that have arisen, but enough to allow sales people to tell buyers that the service contract was insured by that famous British insurer.

The Department of Insurance in Oklahoma suspended American Lenders' license this summer when records showed that EWC was American Lenders' only client and that the insurance company had only \$200,000 in assets. In the original bankruptcy filing, EWC listed \$6.79 million in assets and \$6.22 million in debt, all but \$600,000 of which was unsecured. Three million dollars was reported as owed to the Internal Revenue Service. The schedule of creditors listed only those debts existing as of the date of filing and did not reflect the amount of claims to come due on the three million service contracts outstanding.

A Chapter 11 filing stays creditors from taking action against the debtor to give the debtor time to develop a business plan under which creditors get paid in an orderly fashion, albeit perhaps more slowly and on different terms than the terms of contracts and notes originally called for. The number of complaints flooding consumer hotlines caused the attorneys general in five states to intervene in the bankruptcy proceeding quickly. For example, Oklahoma's attorney general intervened on behalf of 60,000 consumers in that state.

Because of the scope of the problems posed by the bankruptcy, the number of creditors and the mystery

The EWC fall was hardly the first service contract company to fail under suspicious circumstances. The history of the service or extended warranty industry is dotted with similar, although smaller, failures.

of where all the money went, the bankruptcy judge, in August of 1991, appointed an examiner to inspect the company's books and records. Also during the summer, the Oklahoma Department of Insurance stepped in and took over control of American Lenders.

While the owners worked on a reorganization plan, the industry heard rumors of several other service companies willing to step in and cover the retailers and their customers holding EWC contracts. As the enormity of the problem came to light, none of those rumors or companies have yet materialized.

All during the summer, pending the owners' presentation of a plan and the examiners' report, the owners remained in control of the company. In September, the examiner reported back to the judge that, among other things, he had found nearly \$9 million of company funds which had been taken by the owners for their personal use during the three years prior to the filing.

The report showed that Baird Trice's son, Kelly, owed the company \$1.4 million, which he had borrowed in January, 1991, to buy another Oklahoma City business. EWC reportedly also loaned another \$1 million to Mogul, Inc., another company wholly owned by the Trice family. No sooner was this report issued than the creditors of the company requested the court to take control of the company away from the owners and appoint a trustee.

At the same time that the creditors were attempting to wrest control of the company from the owners, the owners came forward with a plan of reorganization which included the creation of a new company to sell service contracts going forward, a liquidation of current assets to pay claims, the assumption of substantial liabilities by certain distributors and dealers who would own the new service contract company, as well as the filing of lawsuits against the owners to

recover funds. In denying the owners' plan, the judge noted that "to suppose people are going to sue themselves to recover money for a company is fallacious."

The court rejected the owners' reorganization plan and appointed a trustee for the company in late September 1991. Ten days after his appointment, the trustee filed an involuntary bankruptcy proceeding against Mogul, Inc., seeking a liquidation of that company's assets to pay EWC on the \$1 million debt. The trustee also ordered the liquidation of approximately \$1.5 million of EWC's home office equipment, including lavish gym equipment and several luxury automobiles, to raise money to pay claims. An auction for those assets was scheduled for late November.

Most recently, the trustee has launched an attack against the owners of the company and certain family members to recover funds the trustee claims were withdrawn from the company to defraud creditors. Specifically, the trustee has filed suit against the son seeking to make him personally liable for the \$1.4 million loan. In addition, the trustee is seeking to hold Baird Trice personally liable for all of the debts of EWC by piercing the corporate veil. The trustee has alleged that Trice commingled personal and company funds and otherwise used EWC as his alter ego in a scheme to defraud creditors.

Whatever the outcome of the EWC debacle, there are already millions of dollars lost and a lot of unhappy customers and dealers. It will almost certainly get worse before it gets any better. It also has people in the service contracting business worrying that this episode will give the whole industry, yet another black eye.

Such problems as exist with EWC are inherent in the business. Customers pay money today for a service they will use from time to time in the future. In an unregulated environment, where competitive pressures

CONTINUED ON NEXT PAGE

Continued from previous page

are intense, the temptation is ever present to spend today what properly should be reserved for tomorrow. To address the issue and to help dealers choose more carefully among service contract suppliers, NARDA established the Service Contract Industry Council (SCIC) in 1988. The goal of the council was and remains to identify the financially responsible service contract suppliers.

Unfortunately, EWC was a member, at least briefly, of the SCIC and much remains to be done if the industry is going to police itself effectively. (For a discussion of the SCIC, see *Progressive Rentals*, December 1988/January 1989, page 38.)

Federal regulations of service contracts

Service contracts are virtually unregulated at the federal level. Service contracts which resemble insurance in certain regards have been left to the states for regulation. There is the Magnuson-Moss Warranty Act, which

although primarily designed to regulate the disclosure and certain other aspects of written warranties given to consumers by manufacturers or dealers, does at least recognize the existence of service contracts. However, it does not seriously address their regulation.

The federal act actually defines a service contract as follows: "A contract in writing to perform, over a fixed period of time or for a specified duration, services relating to the maintenance or repair (or both) of a consumer product."

The chief distinction between a service contract and a warranty has to do with whether the consumer pays an additional fee for the coverage (a service contract) or whether the service is included in the price paid for the property (warranty). A typical service contract would fall under the definition of warranty except for "the basis of the bargain" language in the definition of a warranty which excludes coverage for which consideration beyond the products' purchase price is given.

The federal act does not require anyone to give a warranty on a product. Instead, the act puts disclosure and other requirements on any warranties that may be given. The federal act is designed to give consumers meaningful information when they are offered warranties and to give them access to quick, affordable remedies when there has been a breach of warranty. To accomplish this second goal, the act and Federal Trade Commission regulations implementing the act establishes guidelines for warrantors to create informal dispute resolution mechanisms.

The act has much more to say about consumer warranties than service contracts. However, the act allows the FTC to regulate specifically how the information in service contracts shall be disclosed. The act itself merely requires that terms and conditions of service contracts be "fully, clearly and conspicuously" disclosed in "simple and readily understood language." To date, no such regulations have been forthcoming, perhaps because the complaint against service contracts has not been that they are confusing or misleading, but rather that service companies keep going out of business before they have performed under the contracts.

The federal act does limit the ability of a supplier, which term would include rental dealers offering service contracts on their products, to disclaim or modify any implied warranties covering the product if the supplier sells the customer a service contract, if such limitation is conspicuous and clearly disclosed.

Whether dealers know it or not, most products they rent to customers carry with them implied warranties of merchantability and also, perhaps, implied warranties of fitness for a particular use. These warranties arise by operation of law under articles 2 and 2A of the Uniform Commercial Code. The implied warranty of merchantability raises the issue of when is a TV so faulty that it is not really a TV at all because it will not "pass without objection in the trade under the contract description," nor is it "fit for the ordinary purposes for which such goods are used."

As a practical matter, in the rental context, problems tend to get worked

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out satisfactorily early on. If a customer gets a unit that doesn't work, the dealer will have to fix it or replace it, or the customer will simply give it back and rent one from a competitor. If a unit breaks down after 18 months, a customer, to prove breach of an implied warranty of merchantability, would have to prove that no similar units ever break down that quickly, and while some products may last 10 years or more without needing service, others break down much more quickly and, yet, still pass in the electronics trade "without objection."

The implied warranty of fitness for a particular purpose arises when the customer relies on the dealer's skill or judgment to select suitable goods for some particular purpose of the customer. A dealer might recommend a certain size air conditioner based upon a customer's careful description of his dwelling and needs. If the dealer selected too small a unit, there might be a theoretical breach of this

implied warranty. Again, in the rental context, the liability is remote because any such problem will have been addressed and cured long before ownership occurs.

State regulation of service contracts

The first state to step in to regulate the service contract industry was Florida. In 1978, the state passed an abbreviated bill to address the issue and, in 1983, amended the 1978 act and beefed it up with the Service Warranty Associations Act, placing control of suppliers of service contracts under the Department of Insurance.

The act requires all sellers of service warranties to be licensed, which license, among other things, requires proof of solvency. In addition, there is a deposit on bonding requirement so that warrantors, under certain circumstances, must place in trust with the Department of Insurance an amount equal to 50 percent of the

gross written premiums in force. In addition to the deposit and bonding requirements, warrantors are required to hold reserve accounts in some cases equal to 100 percent of the premiums paid to ensure funds will be available to pay claims.

The act states that warranty sellers, a defined term, may not sell contracts if the gross premiums exceed a 5 to 1 ratio to net assets.

There are ongoing reporting requirements in the act, and the department can, for cause and after an administrative review of the facts, suspend or revoke licenses of warrantors and, in effect, prevent them from doing business in the state. Sales representatives must be registered with the department with a process similar to the licensing of insurance agents in some other state.

Florida's is a comprehensive act, and it's likely to be followed in other states in the aftermath of EWC. New York, Maryland, Colorado and other

CONTINUED ON PAGE 54

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Forget about the interest-rate cap on credit cards. With government,

Less is more

THE U.S. CONGRESS RECENTLY ADJOURNED HALFWAY THROUGH ITS 101ST TERM. OVERALL, THEY DIDN'T ACCOMPLISH MUCH OTHER THAN TO TITILLATE AND FINALLY OUTRAGE THE COUNTRY WITH THE KEATING FIVE INVESTIGATION, THE BCCI INVESTIGATION AND THE THOMAS CONFIRMATION HEARINGS.

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Most of us really don't want them doing too much, because it always means more laws to obey and, as often as not, more taxes to pay.

In the waning days of the session, with the recession still in full bloom, an interesting economic issue arose which could have had a huge impact on the rent-to-own business. The President publicly lamented the high interest rates on credit cards. Ever looking to please the voters in an election year, the Congress picked up the President's lament and began introducing bills to regulate credit card rates by tying caps to various economic indicators. The press ran stories of bloated bank profits from their credit card portfolios, although no one is seriously suggesting that U.S. banking is particularly healthy.

Reason prevailed before any of these various bills got very far along in the process, and the RTO industry never got pulled into the debate. It might have been interesting if we had.

Consumer advocates, of course, think that interest rate caps are a great idea. Consumers, they reason, will pay less in interest if the Congress steps in and by law lowers rates from 19 percent or 20 percent to, say, 15 percent, and the world will be a better place.

Most of us in RTO would agree because we understand some of the other things that would happen if interest rates were capped. Assuming constant rates for the banks' cost of funds for a moment, banks are willing to lend money to millions more people at 19 percent or 20 percent than at 15 percent. At high rates, banks indeed generate greater profits, can take greater risks and survive greater default rates. Bank card default rates ranging from 2 percent to 8 percent of revenues are high, but apparently not too high, since credit card debt continues to flood the economy.

One good indicator is the number and frequency of ads for "guaranteed" credit cards. The guarantee is that the customer will get a credit card with a credit limit in an amount less than the customer must keep on deposit in the lending bank.

If the Congress were to cap rates and do nothing else, fewer people would have credit. Some of those people would, in turn, look to the RTO alternative and the world would, indeed, be a better place.

It would have been curious to see RTO proponents lobbying arm in arm with the very consumer advocates who have taken vows to put us out of business.

I viewed the issue with decidedly mixed emotions. On the one hand, I would love to see a quick fix for the stagnant state of RTO. A contraction of consumer credit from whatever source would help. On the other hand, I feared that a government which could impulsively step on interest rates could just as easily decide to step on rental rates. We all know by now that the Congress did nothing on the issue, and that, finally, is a good thing.

I talked to some bankers who had flown to Washington to nip this issue in the bud. Banks are still carrying huge losses from real estate and commercial loans. For some, the only profitable busi-

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BY

ED WINN III

ness they have is consumer credit. If the government stepped in to regulate that business precipitously, the bankers argued that many of their institutions would fail and the whole industry could collapse, which some think will happen anyway. We mustn't be so short-sighted that we would trade the country's financial stability for a few deliveries, which would come back anyway if the banks failed in large numbers.

There is another plan which will help RTO without the government stepping in or onto the deal. Assuming that our anti-trust laws are in effect and working, we need to let the marketplace work on credit card interest rates, although it is not a perfect market, because even with annual percentage rates standardized and widespread disclosures, consumers historically have not shopped for the best rates in town. Nor have they paid off and canceled a card with a higher rate when pitched a lower rate.

But, as the competition in the credit card business heats up, rates will drop and consumers are bound to

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notice. House refinancings are at a 20-year high because mortgage rates are finally low enough for people to go through the hassle of refinancing their houses. The same thing will happen to credit card rates. At the same time that those rates drop, through market forces, lenders will have to choose their customers more carefully. At every percentage drop, some will not make the cut. If we are good at what we do, many of them will become RTO customers.

Unfortunately, this plan is not likely to evolve quickly. Consumers are currently working to retire debt, and much to the horror of retailers, were not willing to load up on more debt

for this past Christmas season, which they used to do.

The recession is taking its toll and is not over, yet. We are probably two to three years away from the complete return of consumer confidence — and consumer interest rates at low enough levels to throw meaningful numbers of customers our way.

That is assuming the government will let the economy correct itself, and not get in and force the issue with election year bromides. If that happens, the recovery for RTO and for everyone else may take a lot longer. **PR**

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

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Are your store personnel having difficulty closing sales? Here's how to persuade ...

The reluctant renter

SPENDING THOUSANDS ON A BRILLIANT TELEVISION AD CAMPAIGN ONLY TO HAVE A RELUCTANT CUSTOMER FAIL TO GIVE YOUR SALES CLERK A COMPLETE RENTAL ORDER CAN FRUSTRATE EVEN THE MOST PATIENT RENT-TO-OWN STORE MANAGER. HERE THEN ARE VALUABLE TIPS ON TURNING SHOPPERS INTO RENTERS.

.....

The first thing is to advertise only the first payment and keep it low — this is the only payment the renter intends to make anyway. And try to keep your rates consistent with those of competing rental dealers who are now in bankruptcy.

If your showroom sales clerk isn't familiar with the products offered, hang a sign around the clerk's neck warning any potential customers. This will quickly reroute those shoppers to a more knowledgeable person (such as the customer standing at the counter who's paid out seven TV sets already).

Once inside the store, any shopper wants to look around and browse. It is important not to confuse this with shoplifting. Of course, should your employees see a lumpy-looking woman walking out the door with an electrical cord trailing from under her dress, proper measures should be taken. Remember, however, that some customers who live in economically disadvantaged areas may carry their toasters and VCRs with them even on short shopping trips. Some dealers in the Southeast have reported good results with full body searches and metal detectors at the front door.

The browsing customer should be steered to the high-profit items. If these happen to be the drugs in your assistant manager's desk, then you should carefully review your marketing plan.

A good display is crucial. Many rent-

to-own stores display their bedroom furniture near the front window so that potential customers can see the product being demonstrated by employees on slow days. This builds sales while allowing valued employees needed rest and recreation.

The customer who isn't sure of what he or she wants may take some time to decide. This process can be speeded up considerably by a simple method — take away their babies and valuables when they enter the store; return them only when you have a completed application filled out. (Caution: Be sure to check for extra babies during your regular monthly inventory audits; not all customers ask for them back when they leave.)

Providing the customer a bright and cheery place in which to fill out the required paperwork is essential. Many rent-to-own customers have experience only at standing in crowded lines or waiting in front of dreary cashier cages. This is not a knock against all bail bond agencies. Many are comfortably furnished and well-lit.

Once the customer has decided on the shiny new television displayed in front of the giant murals, banners and cut-outs provided by your suppliers, do not leave it up to some lower-level employee to tell them that's not the one they'll get later. This should only be done by someone experienced in both human relations and the martial arts.

If the customer drags his (or her) feet and claims they saw a better bargain down the street at RentaCenter or another competitor, simply tell them the other company is in deep financial trouble and hires only infected degenerates from Haiti and other Third World Countries. You might even ask if they have a teen-age daughter who might be at home when the delivery is made.

If that tactic still doesn't convert the customer you must apply Showroom Strategy No. 3. Begin cursing and striking employees; pull papers from the cus-

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BY

BUD HOLLADAY

APRO PUBLICATIONS

tomers' pockets or purse and demand answers about them; turn to the assistant and ask if immigration is here yet. Sooner or later they'll get the message and do whatever you want.

In the remote event none of these tactics work, you should use Parking Lot Strategy No. 6. Find the car the customer came in and disable it (If the customer arrived by city bus, however, you must change the destination sign on the front of the bus — it accomplishes the same thing.)

When the customer drags back into the showroom, weary and grease-covered from attempting to start the disabled car, you generously offer a cup of coffee at a reduced price or even a paper towel for a few cents. Smile broadly and then ask the customer if they'd like to rent a good van for the day. Be sure, of course, to check first for a valid driver's license or at least a learner's permit from K-Mart.

When you've mastered these strategies and tactics, you can expand your sales even farther by ordering APRO's Standard Rent-to-Own Store Sales Kit. It's a multi-level marketing program designed to let your existing customers earn pink 1978 Cadillacs or exciting gold-look jewelry just by hosting home parties where your products are displayed.

These kits are sent UPS and can be billed to your Uncover Card, your wife's parents' home address — or you can send cash. Mail \$139.95 for the kit. It includes a 30-minute video of the Ed Winn Workout. **PR**

Bud Holladay is vice president of marketing for Alrenco. He is a former RTO dealer and founder of APRO. His opinion/humor column appears in Progressive Rentals every issue.

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12 months, I never saw a single Mr. T's bumper sticker on a car.

Ernie believed in spending lots of money on TV advertising (which almost nobody else did in those days) and product — and none on anything else. So store managers had to be clever and inventive. But there was never an excuse for not gaining huge numbers of new accounts. That's perhaps why so many of his old managers turned out to be owners or key operators of big companies. If Ernie had confidence in a guy, that person could do whatever he wanted with no interference at all (so long as the numbers continued).

In the old days, Ernie was a private person. He never made small talk or got involved in managers' personal lives. He always figured, I suppose, that a manager had two lives: personal and Mr. T's. They never mixed.

But the pay was good and the commissions were high, so nobody cared (except all those wives sitting at home, being ignored). A typical store manager's day was 9 a.m. until 10 p.m. and a half day on Sunday cleaning up the store.

Store managers today don't know how easy they have it. Back in the late '60s, early '70s, you might get a call on Thursday. Ernie would tell you to be in St. Louis on Monday. "For how long?" you'd ask. He'd reply, "You're being transferred. It needs some work." So we'd call the wife, tell her to pack, and we'd be there Monday. Period. Six months or a year later, you may get another call.

And Ernie didn't believe in paying anybody a guaranteed bonus for taking over a store at the bottom. His rationale was that you were being sent there to make it better. Making it better would create commissions. So why pay a guarantee? That made managers tough in a hurry.

When Mr. T's was really doing well, Ernie leased a large suite of offices in a fancy new building near downtown Wichita. By that time we had a slick company newsletter that went out to all stores and Ernie had a photo of the new office building featured prominently on the cover one month.

I went into a store in Louisiana

about that time and there, taped to the front door, was the front cover of that newsletter with the picture of the big office building. Hand-printed underneath was a message to customers from our local manager: "PLEASE PAY ON TIME — WE HAVE A HELL OF A MORTGAGE." Ernie didn't see the humor.

After Ernie had sold to Chuck Sims (laying the foundation for Remco), he went into state politics in Kansas and later moved to Dallas to oversee the management of the many apartment buildings he owned.

I went to work for Ernie in May, 1968. His general manager, Chuck Sims, came to Joplin, Mo., where I was selling insurance. Chuck interviewed me in a coffee shop, wrote me an expense check for \$300 and gave me the address of Mr. T's Atlanta store that I was to manage within two weeks. By the time I got to Atlanta, Chuck had quit and started Remco (with a Trend Rental store in Houston). I still hadn't spoken with Ernie.

I didn't even meet Ernie until I'd been working for him a couple of months. I'd received the standard two days of training (where to make the bank deposit, where to pick up the mail and how to type the daily report).

Ernie would call once a week and ask how it was going. The first rental store I'd ever seen was the one I was managing for him then, so I really had no idea. But we were gaining units and had no past dues, so I'd say "great." He'd say "great." And we'd hang up. Our store went from 415 units in May to more than 1,000 by Christmas. Ernie came down for our Christmas party and told everybody: "You guys have done all right here; probably set a record or something." For Ernie, for 1968, that was inspirational.

The last time I spoke with Ernie, he was involved in rebuilding the Vista rent-to-own chain and literally relearning the rental business. He thought a lot of guys were "smarting themselves right out of business." In his view, they were making it harder than it had to be. Considering the wealth Ernie managed to accumulate from less than 15 stores, he could be right. **PR**

Bud Holladay is vice president of marketing for Alrenco. He is a former RTO dealer and founder of APRO.

story is one and the same. He was working for Mr. T's in 1974 when Ernie Talley sold the company to Sims. Hardesty lasted about six months under Sims, since they had what Hardesty calls a "personality conflict." Hardesty resigned rather than being fired. In the years after, they became amiable peers, according to both men.

Said Hardesty: "One of the best compliments Chuck ever paid me was a few years ago when we were talking on the phone about different states as far as the new laws and how we reacted to them. He said, 'You know, I've made a few mistakes in my life and you were one of them. But if I hadn't let you go, you probably wouldn't have gotten where you are today.'"

In 1975, Hardesty bought three RTO stores in New Orleans from dealer Jack Callender. Hardesty says the agreement hinged on sizeable monthly payments for three years, plus a down payment in the neighborhood of \$10,000. With no reserve capital, Hardesty was in business but in debt. "You can buy yourself broke and end it," he said. "I've come close a couple of times."

However, within a year, Hardesty was able to secure a credit line through Curtis Mathes for product that helped him through some dire straits. Also at about that time, Hardesty opened a store in Memphis. He still wasn't flush with money, but he was able to find financing in bits and pieces. After several attempts, he finally landed an SBA (Small Business Administration) loan. All of a sudden, Hardesty was on his way.

"I'd go open a store thinking, 'Man, if I can improve my numbers, increase my cash flow, they'll (lenders) look at things differently.' They did and they started upping my credit line," Hardesty said.

Hardesty made a conscious decision. To be successful, he needed to expand the operation; get into new markets. "So I took many, many risks. I figured, hell, if it doesn't work I'll be no worse off. I can always make a living. But I didn't want to just make a living. I wanted more than that. And,

CONTINUED ON PAGE 53

Continued from page 37

10 percent BOR you will need a well-trained staff.

Initial training should be provided by your vendor. This will vary from a salesman who's never been behind a retail counter, much less a rental counter, to some very good training by professionals. This is something you need to ask before you commit to a supplier.

Maintaining that training is more difficult, but should be addressed by working with the supplier for back-up training during their visits. Training alone will help slow the turnover rate in personnel — and a bonus will likely be increased rentals among other products.

How do I keep control of inventory?

Keeping track of the product is paramount to your success, but most operations aren't equipped to do more than control the inventory. To do this all items must be coded and tracked separately. All items must be stamped with your ID. This will identify your product from others. Capturing all rental data by style, rental rate, category or revenue earned would be great. Unfortunately, most computer systems are only programmed to capture accounting data. Very little true management information is available from MIS departments.

How do I promote jewelry?

After clearing all of these hurdles, you can still lose the race by not taking advantage of the obvious appeal of jewelry and its natural ability to excite the impulse shopper. If you want jewelry to reach 15 percent to 20 percent BOR, assuming you've made the right choices up to this point, then aggressive promotion is the fuel that will get you there. In store point-of-purchase materials, fliers, radio and television are the main vehicles to promote a product. However, they aren't the only means.

Being persuasive, persistent and, above all, enthusiastic with the offers, especially by your managers when they distribute fliers door to door, will pay off. Your people need to talk to

Perhaps more than half the reason to promote any product is to excite the troops. If your promo doesn't do this then half the battle is already lost.

everyone about your story. Your managers do this, don't they? If not, why not?

As for radio and TV, if you're already using it then you probably have professionals to help. But remember: Jewelry is different. Ask your supplier to join your advertising team. It can only help your staff make better decisions. I've been lucky to have worked with two of the top advertising minds in the RTO business. Larry Sutton and Mark Del Monte taught me that it doesn't take a big budget to get your message across. What it takes is an aggressive game plan, getting out on the street with your customer and superior execution by the team in the field.

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Reasons that any company might fail in renting jewelry boil down to the major questions posed earlier. Only instead of making the right decisions, a series of flawed answers, poor execution or misunderstood instructions contribute to a disappointing result.

Here's a list of some fairly common mistakes that are best avoided:

- **Purchase poor quality.** At any price, this is a death sentence. Your first and primary sale is to your employees. If they don't have confidence in the product, it will die.

- **Choose the wrong styles.** Picking pieces you personally like is dangerous. You do not match the demographics of your customers. Therefore, your tastes in jewelry are probably different.

- **Poor display.** Only a certain amount of jewelry will "sell itself." If you don't show customers the pride you've got in the product by displaying it like a fine jewelry store would, then why should they think it's real?

- **Low inventories.** After having initial success, poor reorder systems and poorer execution in the field cause an imbalance in the inventory.

The reason you aren't renting chain or wedding rings is you have a grand selection of two or three at the store. It's very difficult for a district manager to glance at a case and know whether or not the store is well merchandised. It takes a simple system.

- **No, or worse, poor training.** The result is a staff that is fearful of the product and can only — in the best of situations — remember to say: "Don't it look purty?" The only thing left for them to talk about is price. Jewelry doesn't come with a remote control to fall back on. However, it does have its own features and benefits.

- **Jewelry sells itself.** While this is true to some extent, you're setting yourself up for a fall if you rely too much on the following philosophy: "Jewelry is a great product that's a natural for the impulse shopper, so let's not waste our time promoting it."

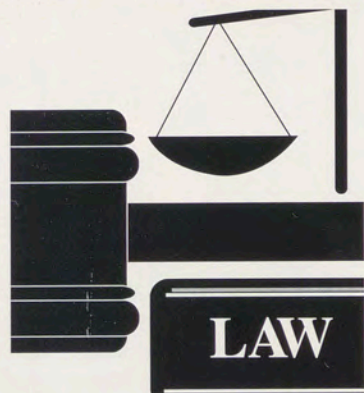
Some dealers have let jewelry die on the vine with this kind of hands-off attitude. Can you think of any other product that will add as much to the professional stature of your stores? "Fourteen-karat gold and fine diamonds, available only at Rent-to-Own Company X ..." Just try substituting any other type of product into that phrase.

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I'd like to leave you with this thought. In general, the reasons why anyone rents jewelry — or any other product, for that matter — from you is because they trust your company, people and products. Do everything you can to enhance the justification for this trust. A top-notch jewelry program can certainly contribute to your company's positive image, not to mention profitability.

PR

Curtis Brooks is a graduate gemologist with more than 20 years of experience in the international jewelry business. He is listed in the Who's Who in the Jewelry Industry and has been a consultant and trainer for major rent-to-own companies and jewelry manufacturers. He is the chief operations officer for T&S Import Co.



The new year provides us with ...

A time to look back, forward

APRO'S GOVERNMENT RELATIONS PROGRAM HAS BEEN IN OVERDRIVE FOR SEVERAL YEARS NOW AND MUCH HAS BEEN ACCOMPLISHED. THERE IS INDEED MUCH FOR THIS INDUSTRY AND ASSOCIATION TO BE PROUD OF.

MY PRIMARY PURPOSE HERE IS NOT TO REITERATE THOSE MANY MILESTONES, BUT IN CASE THERE IS SOMEONE OUT THERE WHO HASN'T HEARD THE WORD OR STILL NEEDS TO BE REMINDED, I FEEL OBLIGATED TO LIST SOME OF THEM AGAIN.

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I must repeat this one more time: I know of very few industries or trade associations that can boast, as APRO could if so inclined, that they inherited a defensive legal and political situation and turned the tide. In less than eight years, state rental dealer associations and APRO have successfully urged passage of 29 laws that regulate the rental-purchase transaction — and protect the rights of dealers to do business.

We are completing a national network of RTO dealers who have the real ability to respond quickly to defend the industry state by state, as we did most recently in Maine and are doing now in California. Our national network has the proven ability to respond timely and decisively to national issues, as we demonstrated a couple of years ago with our national grassroots letter-writing campaign to targeted congressmen.

Most recently, we have demonstrated that our government relations program is sensitive to current concerns of individual dealers by producing written tools to support their financial, legal, politi-

cal, public relations and operational aspects of their businesses. There is still plenty to be done, but we have accomplished much of our task toward our mission to "help ensure the safest possible legal environment for the rent-to-own industry."

With that out of the way, as promised, here comes the good part:

So, what's 1992 and beyond going to bring for APRO's government relations program? Obviously, we have some unfinished business to complete, including the completion of the continental U.S. network of state RTO associations.

We currently have organizations established in 42 of the 50 states in the union. We target five new organizations per year and in 1992 we have targeted North Dakota, Oregon, Arizona and either Mississippi or Idaho. States are targeted for organization as we anticipate legislative activity during the year or as RTO dealers in the state solicited our help in organizing a state association.

Actually, we have already held organizational meetings in Oregon and Arizona, where dealers are anxious to get organized as soon as possible even though no legislation is expected in those two states during 1992.

We have a jump on that part of next year's goals. But, feasibly, we should have organizations started and laws passed in all of the states necessary within a couple of years or so.

There is an even bigger job ahead of solidifying our network in many states where a quiet political environment and a favorable RTO law works against those dealers who wisely want to stay organized against sneak attacks. While we have organizations on paper in 42 states, we really have viable groups in less than the 32 who were represented at the last "state presidents' breakfast" during last summer's annual convention.

At that time, mid-August 1991, there

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BY
RON WATERS

We will ... need to turn our attention to what is commonly called public relations — finding ways to cash in on our enormous goodwill with our customer base and spreading the word regarding the good that our services provide toward fulfilling “the American dream.”

We will need, I believe, to find worthy charitable causes which have appeal to our customer base and support them financially, whether or not they are groups we would personally choose to support. It would be good for business and we should be as good “corporate citizens” as we are personally.

were really nine or 10 states where we needed to do some reorganizational work, and we have already made progress on that goal in four of those — California, Virginia, Minnesota and New York. That leaves five to concentrate on next year. But even as we reorganize, some of the other state associations will fall below desired levels of activity because of officer changes, quiet political environments — or other reasons.

This reorganizational process is an ongoing component of association management.

Officially, we still have some unfinished legislative business at the federal level and we will also need to always remain diligent to monitor Congress — whether or not we ever pass a federal RTO law. But realistically, in my opinion, we have a window of opportunity in that area for only two or at most three more years before support from dealers falls off. By then, many will have grown satisfied that their state law will adequately protect them. We also lose much more of our argument for federal legislation with congressmen as more states are added to the list of those with RTO laws.

However, a good federal law would be a safety net for RTO and remains a worthy goal for the industry.

Now, where do we go that's new, exciting and important over the next two to five years? Naturally, we don't know about many future activities because they will be responses to things that crop up, but a couple of projects currently on the backburner will be moved to the front line. In

my opinion, these must include the long overdue development of state RTO association political action committees, or grassroots political networking which will include a well-developed PAC organization as one component.

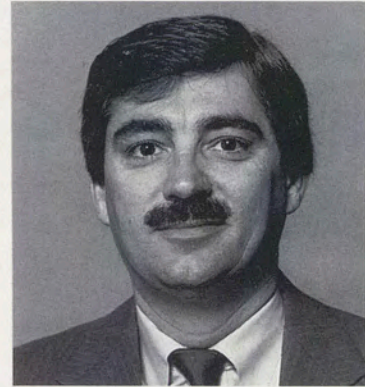
This must also be accomplished at the national level and you will be hearing more on this subject during 1992. We must begin to weave ourselves and our industry into the fabric of the political community which runs the country and controls our destiny.

We will also need to turn our attention to what is commonly called public relations — finding ways to cash in on our enormous goodwill with our customer base and spreading the word regarding the good that our services provide toward fulfilling “the American dream.”

We will need, I believe, to find worthy charitable causes which have appeal to our customer base and support them financially, whether or not they are groups we would personally choose to support. It would be good for business and we should be as good “corporate citizens” as we are personally.

The agenda is unfinished and more planning is yet to be done. You can and should have a contribution toward planning the rent-to-own agenda and I encourage you to contact me or any APRO government relations committee member or board member. In the meantime, I hope the above is food for thought and that you and your family have had a wonderful holiday season and are beginning a great new year!

PR



Ron Waters is APRO's director of government affairs.



Jerry Bogo Company

Jerry Bogo Company is a major diamond importer and prime manufacturer established in 1971 and located in Chattanooga, Tenn.

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Because our key people come from the RTO industry, they can help you with general operational functions, like security procedures, customer service, sales training and will provide training manuals for all your personnel.

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For more information, contact Richard Anderson at (800)877-7907.

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London Star is a vertically integrated diamond and diamond manufacturing company. We sell and service many of the world's largest diamond manufacturing and jewelry distributing retail companies through our affiliated offices in London, England, Antwerp, Belgium, Tel-Aviv, Israel, Bombay and India.

From the mining of the world's rough diamonds to the manufacturing of complete diamond jewelry, the London Star group is the only company of its kind. It offers the rental jeweler a truly prime resource, allow-

ing for the best possible pricing and value on diamond jewelry.

Our New York office services many of the nation's largest retailers of jewelry and general merchandise. Our diamond jewelry line has the breadth and the depth to service all ranges of the jewelry retailer; from the mall jeweler to the discount or mass merchandiser. Our experience and knowledge in the successful retailing of diamond jewelry is a critical resource available as soon as a rental dealer picks up the phone and begins an association with London Star. For us, the sale is the beginning of a relationship and a long-term partnership. We have sold and serviced the rental industry since 1984.

London Star Limited is a fully automated jewelry manufacturer. We have been on-line through EDI with several of our customers for many years now. For one rental dealer, we receive daily transmissions of reorders and offer 72-hour replacement of merchandise shipped directly to the point of sale.

Displays, boxes, bar-coded tags as well as promotional materials are standard offerings from London Star.

House of Commans

The House of Commans is proudly celebrating its 50th anniversary in the jewelry business. The House of Commans manufactures and merchandises a complete line of fine diamond jewelry.

Under the management of the third generation of the Commans family, the strong commitment to quality merchandise, fair prices and customer service remains the hallmark of the company.

With an in-house design staff, we remain current with classic and contemporary styles in all categories of diamond jewelry — diamond dinner rings, bridal sets, anniversary bands, gents' rings, pendants and earrings, wedding bands and colored

stone dinner rings. All of our manufacturing takes place in our facility in Kansas City and the latest technology in jewelry manufacturing is used. Quality control is of the utmost importance and nothing leaves our factory that is not 100 percent satisfactory.

The jewelry needs of the rent-to-own industry must call for a diamond source that can offer a total and complete diamond ring service. We stay on top of up-to-date merchandising methods, changes, production techniques and are able to produce results for RTO dealer in the most effective and economical way possible.

World Pacific Jewelry

World Pacific is a primary manufacturer of diamond and color jewelry in 10-karat and 14-karat gold with 20 years of experience.

Since we began servicing the needs of the rent-to-own industry, we have continually added to our assortment to accommodate you. We listened to your feedback and you told us that diamond cocktail and anniversary rings are your No. 1 category. We have expanded this category to include new, exciting styles at prices you can afford.

If you are just starting out, you can get in on this hot category for a minimal initial investment. If you currently carry jewelry, these refreshing new styles will add sparkle to your showcase.

In addition to customizing the assortment to fit your needs, we provide:

Training manuals, displays/showcase options, EDI capabilities, in-stock programs/special orders, toll-free number with in-house customer service representative — and quality guaranteed with certificates of authenticity.

We understand that quality, price and service are your major concerns as they are our major priorities. We

offer 100 percent quality guaranteed merchandise at very competitive prices. We want to be your partner in the rent-to-own industry.

Southern Rings

Southern Rings, a prime manufacturer, diamond importer and jewelry supplier for more than 20 years to the largest retail jewelry and department store chains, has developed the most successful jewelry program for the rent-to-own industry.

For years, when Bill Johnson, president of Southern Rings, was asked the question by potential RTO customers, "What's the first step before entering into a RTO jewelry program?" he would reply, "Find a direct supplier, an in-house manufacturer that produces the entire product."

But now, after working with hundreds of RTO customers, he has changed his answer to: "Be honest with yourself in evaluating your commitment to a jewelry program. Decide if you are going to be satisfied with only moderate success, or if you want to go for the 'whole enchilada.'"

Twenty-five pieces of selected jewelry will not provide a 200 unit increase in your (BOR) balance-on-rent. No way. It is possible to achieve the 200 unit increase, but to do so you must: set your goals, operate with a proven plan and receive direction from professionals with both RTO and retail jewelry experience.

Southern Rings has this type of staff and has a newly formed RTO customer service department, which is headed by Jeff Bloom, former SKA Rentals general manager.

Rent-A-Rock

First-hand rent-to-own knowledge and dealer success stories have made Rent-A-Rock the unquestioned leader in jewelry merchandising for the RTO industry.

Realizing that money can't be earned from something your people are unable to rent, Rent-A-Rock provides the only trademarked and service-marked RTO jewelry merchandising system in the United States and Canada. What this system offers



Photo courtesy of Rent-A-Rock

Jewelry represents 20 percent revenue for some RTO stores.

front-line people is an easily identified product, with price point and description integrated through the product model number and four color catalogs provided to each of the dealers' stores.

Coupled with in-store training and product knowledge from Rent-A-Rock's select group of RTO experienced trainers, this merchandising system forms an unparalleled profit center on the RTO sales floor.

Rent-A-Rock provides a true "turn-key" jewelry profit center that starts with

Rent-A-Rock's own in-house financing and terms of up to 12 months available.

Product is supplied factory direct, with jewelry shipment in as little as 48 hours. A complete case display and individually customized merchandise selections are made based on each dealer's size and needs. Displays in the store or logo colors are available to compliment an existing interior store theme, or create a brand new look.

Rent-A-Rock is the originator of "stock balancing" in the RTO industry.

Who's Who in RTO jewelry

Y Am-Gold Products, Inc.
150 N. Michigan Ave. #3600
Chicago, IL 60601
(800)621-2174
Jewelry

Y+ Jerry Bogo Co.
3900 Volunteer Dr.
Chattanooga, TN 37422
(615)894-4480
Jewelry

Y* Champion Merchandising Corp.
200 E. 24th St.
New York, NY 10010
(212)447-1155
Jewelry

Y Elba, Inc.
550 S. Hill St. #715
Los Angeles, CA 90013
(213)623-7753
Jewelry

+Y* Fashion Craft Corp.
847 W. Jackson Blvd.
Chicago, IL 60607
(312)421-7900
Jewelry

Y Gruen Marketing Corp.
8 W. 38th St.
New York, NY 10018
(212)768-2121
Jewelry, fine watches

* Harry Winston, Inc.
718 Fifth Ave.
New York, NY 10019
(212)245-2000
Jewelry

*Y+ London Star Ltd.
600 Fifth Ave.
New York, NY 10020
(212)757-2800
Jewelry

Y* M.B. Jewelry Creations
7500 Bellaire Blvd. #500
Houston, TX 77036
(713)995-0027
Jewelry

Y+ Oro International
5 N. Wabash #1503
Chicago, IL 60602
(312)641-0091
Jewelry

Y+ Prime Source International
2004 Grant St.
Hollywood, FL 33020
(800)624-5448
Jewelry

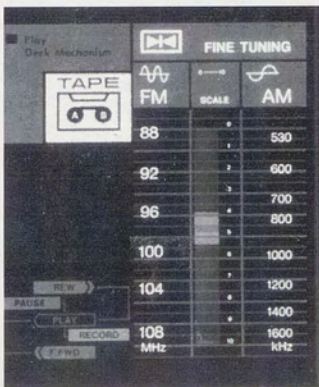
*Y+ Rent-A-Rock
2205-F Grant Ave.
Panama City, FL 32405
(904)785-3000
RTO jewelry program

Y+ Southern Rings
2900 Hessmer St.
Metairie, LA 70002
(504)445-4617
Jewelry

Y+ T&S Import Co., Inc.
1302 Huntsville Hwy. Box 1079
Fayetteville, TN 37334
(615)435-6661
Jewelry

*+ The House of Commans
1738 S. Main
Kansas City, MO 64108
(816)221-4272
Jewelry

For a growing number of dealers, jewelry has made the transition from an experimental add-on to a full-fledged part of the rent-to-own product lineup. And while it's still not right for some RTO operations, jewelry accounts for as much as 20 percent of BOR in others. That's why — for the first time in Progressive Rentals — we're publishing the jewelry category of supplier in Who's Who. Each company listed supports APRO as an associate member (), advertiser (+) or convention exhibitor (Y).*



See APRO at markets

APRO is again participating in the winter markets by setting up booths, hospitality suites and seminars for its members and others interested in the rent-to-own business.

The major winter electronics and furniture markets are in January and February, 1992. APRO provides message boards at the markets for its members and participates as an exhibitor and clearinghouse

of information on rent-to-own. Here are the names and dates of the winter markets for '92:

- International Winter Consumer Electronics Show — Jan. 9-12, Las Vegas.
- San Francisco Winter Furniture Market, Jan. 18-22, San Francisco.
- Atlanta Winter Furniture Market, Jan. 25-28, Atlanta.
- Mississippi Furniture Market, Feb. 20-23, Tupelo, Miss.

For more information, call APRO's Shelley Martinek at (512)794-0095.

PR honored in Chicago

The Association of Progressive Rental Organizations (APRO) was recently recognized at an awards ceremony in Chicago for its bimonthly magazine, *Progressive Rentals*.

Progressive Rentals earned a Certificate of Achievement, the equivalent of second place, in the category of Most Improved Magazine/Journal in



Editor John Gormley, right, is congratulated in Chicago by Gene N. Fondren, American Society of Association Executives chairman of the board, for *Progressive Rentals* award.

the American Society of Association Executives (ASAE) Gold Circle Awards program. (See October-November *Progressive Rentals*, page 7.)

APRO was one of only 96 Gold Circle Award winners out of 983 entries nationwide in 22 categories.

Fifty-six total entries were received by ASAE in the most improved

magazine/journal category for 1991, with 30 coming in APRO's division, Section A. Out of the 30 entries, only two awards were given in Section A, which is for associations with less than \$2 million annual budgets.

John Gormley, APRO director of communications, accepted the award during ASAE's Nov. 13 recognition luncheon in Chicago.

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Continued from page 46

besides, I'd made a commitment to some good people. In order to support these people, I had to grow."

But success has its price — and it's high, Hardesty knows from experience.

"My whole goal was to become a millionaire and just kind of have life somewhat easy from that point. But it doesn't work that way. You keep thinking you're going to have all that freedom and spare time. Basically, if you're going to make it, it just doesn't exist. You know: The more responsibility, the more time it takes."

These days, Hardesty splits his time between the corporate office in Metairie, a suburb of New Orleans, and his Ohio farm. He makes the commute back and forth at least once a month.

"Five years ago I bought a farm up in Ohio. That's where my wife's from. I figured I'd be here (in the office) a lot more than I am, but with my good people, I really haven't had to be. I'm here a week, 10 days out of the month."

When he is in Ohio, Hardesty keeps in contact via phone and fax. "I get my reports there on a weekly basis; sometimes on a daily basis, depending on what's going on."

Hardesty thrives on competition —

Continued from page 17

interests of the lender. These covenants may be serious impediments to the ability of the company to grow and prosper over the long run.

Small business borrowers should be especially careful of negative covenants, which are a series of acts which cannot be performed without the lender's prior written consent. Negotiate limitations on these covenants as your company's ability to repay becomes stronger by linking the covenant to the company's performance. Covenants should also be consistent with other corporate documents, such as bylaws. **PR**

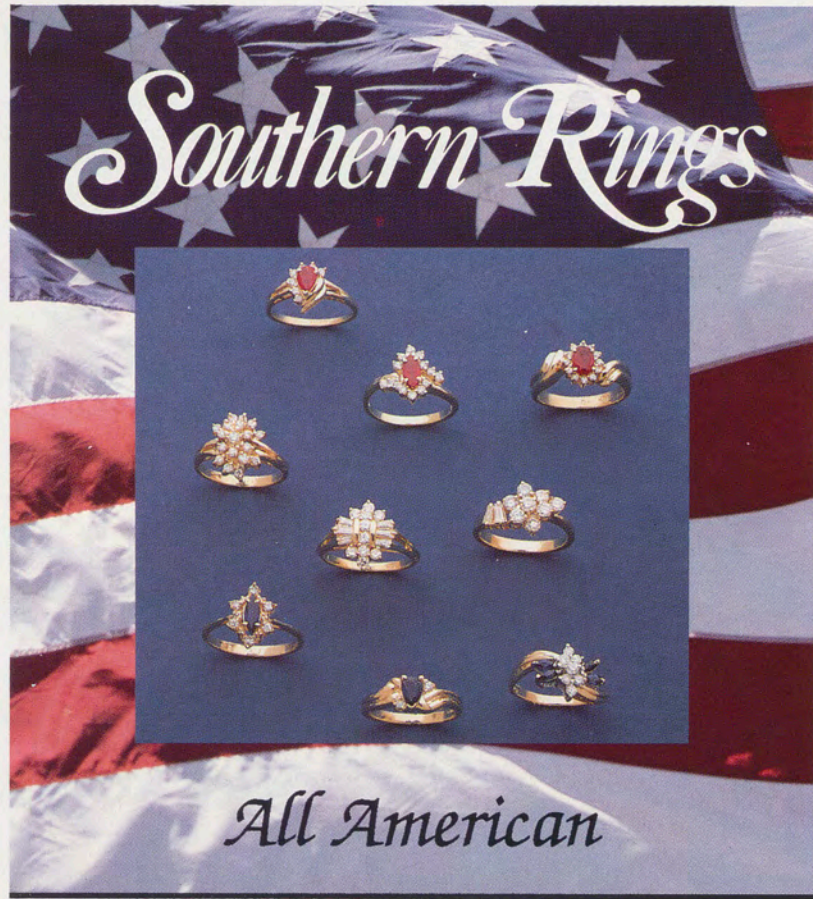
Andrew Sherman is a business author with extensive writing credits.

whether it's card games, board games or the precarious game of running a business. He excels at them all, but thinks RTO represents a particularly tricky contest of chance and skill. "I like any kind of game, any kind of challenge — and the rental business is very challenging. Putting the right people in the right place, making the right decisions ... it's a game."

Remember the office softball game? Hardesty and his home-office people never got to play it that balmy October day in New Orleans. Instead, they remained caught up in a whole different kind of ballgame. Rent-to-own.

PR

John Gormley is APRO's director of communications and editor of Progressive Rentals.



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states have already been considering similar legislation.

Because of the Service Warranty Act, EWC incorporated separately in Florida. The monitoring features of the act allowing the Department of Insurance to oversee a service warrantor's business apparently worked, because the department suspended the license of EWC of Florida, Inc., in June 1991, several weeks before the main company filed bankruptcy. The suspension was for failure to provide required financial information.

Service contracts in RTO

Despite the problems, the service contract industry is viable and can be a profitable adjunct to a rental dealers' business. Surprisingly, perhaps, even consumer advocates acknowledge the place of service contracts in the marketplace. Modern electronic products are complicated and expensive to repair. Most are intended to last far beyond any manufacturer's

Unless dealers are willing to set aside money collected on service contracts and have it available for a refund when the customer returns a unit ... they are risking consumer complaints and possible legal action.

Another option is to sell the service contract at or near the end of the term. The customer can make a few more payments after ownership, although not more than four.

warranty, and a service contract allows consumers to budget for the upkeep of their goods without suffering the surprises of broken machines and huge repair bills.

From the dealers' point of view, service contracts only work if they can add profits to the store. For EWC dealers that will probably not be the case.

For the moment, there is no certain test for ensuring that a service contract supplier will be around long enough to make good on its service commitments. Already, the marketplace is responding, and five-year extended warranties are virtually gone. Dealers are more used to seeing one- or two-year contracts which can be renewed.

Legislation is coming, state by state probably, and it will further help ensure the financial stability of service contract suppliers. In the meantime, for rental dealers, it remains very much a case of buyer beware.

If rental dealers find a service contract supplier with whom they are comfortable, there remain important issues concerning how to market and sell the product to consumers. Dealers generally like products that increase cash flow week by week. Most "other charges" prevalent in the industry fit within this category — leased property insurance and the like. The customer gets an immediate benefit and the dealer gets immediate cash. The problem with selling service contracts the same way is that the customer gets no immediate benefit. The customer is paying for service in the future on a product he may never own, unless, of course, he chooses to pay it out. If the customer does pay out or exercises an early buy-out option, then there is no problem.

What happens, however, if the customer returns the unit? Then, the risk

is that the customer has paid for a service contract that he will never get.

Unless dealers are willing to set aside money collected on service contracts and have it available for refund when the customer returns a unit, or alternatively elects to keep paying on the unit but to quit paying on the service contract, they are risking consumer complaints and possible legal action.

Another option is to sell the service contract at or near the end of the rental term. The customer can make a few more payments after ownership, although not more than four without proper Truth-In-Lending disclosures, and have the service contract paid for.

Yet another technique is simply to fold service contract protections into the product offered for rental ownership. Dealers can buy service contract protection from a supplier which attaches automatically to all units which go to term. The dealer recovers the cost of the service in his rental rate.

Most recently, the industry has seen the advent of rental clubs. The customer elects to join a rental club for a weekly or monthly fee, for a bundle of benefits — one of which is a service contract on all units rented.

The rent club notion is still a new one for the rental industry, but one which many believe has promise.

Service contracts have a place in RTO since the industry has customers attracted to it because of the service component. They offer the dealer a means to continue that service for customers after ownership. If either the industry or the government can figure a way to keep suppliers in business, there is the possibility of a program for RTO that helps everyone. **PR**

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

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