

Progressive

August/September 1993

Rentals

The magazine of the rental-purchase industry

**Party's over ...
back to work**

**1993 APRO convention
wrapup, looking ahead**

**New insurance
program rollout**

**Product focus:
Appliances**



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APRO

PR

Progressive Rentals

August/September 1993

The magazine of the rental-purchase industry

Volume 13, Number 4

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APRO leaders have just negotiated a new property and casualty insurance program for association members. It promises affordable peace of mind.

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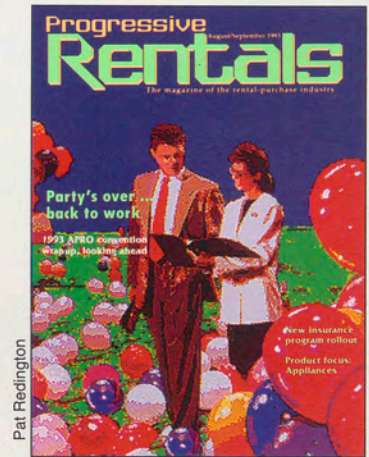
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How others perceive us affects everything we do, so let's dedicate ourselves to changing this

Pride = image

AS WE EMBARK INTO THE APRO 1993-94 YEAR I WOULD LIKE TO LOOK AT THE PAST, BEFORE THE FUTURE. FIRST, AS AN 11-YEAR MEMBER OF APRO, I'D LIKE TO PERSONALLY THANK OUR PAST TWO PRESIDENTS, TED WILSON AND WAYNE CHAMBERS. DURING THEIR FOUR YEARS OF TENURE OUR ORGANIZATION HAS GROWN IN SIZE, STRENGTH AND RESPECT.

•••••

Second, I welcome the chance to work closer this next year with Bill Keese and the rest of the APRO staff. They are some of the most hard working and dedicated people I have had the pleasure to work with.

These two points are quite evident by what most of us saw culminating in Las Vegas less than two months ago. It was the largest-attended convention in APRO history, with 1,400 attendees, the best collection of educational and motivational speakers, a sold-out exhibit hall, the largest golf tournament and, last but certainly not least, the best show of support for APRO and what the organization is trying to do—through PAC funding, board nominations and attendance at all functions.

We should all be proud.

This brings us to the future. Over the past nine months APRO leaders have been busy putting together a group of highly skilled attorneys, lobbyists, accountants and a public relations firm to battle our two-front war with the Internal Revenue Service and the very real threat of bad federal legislation.

I believe that with this team in place—and our members' continued support—we will win both battles.

But there is still one element that could cause us serious problems, and it impacts our chances for success in nearly every endeavor.

Our image.

There is no team of experts that can change this except ourselves. We are experts in our field. We know better than anyone what we feel about ourselves and what our customers feel about us. The sad fact about the image battle is that the majority does not win, but what is perceived by anyone, at any given time, does. A negative perception is always much stronger than a positive.

If we are "caught in the crosshairs" by these two figurative hunters then we must change the image of what they think they see in their scopes—so they won't pull the trigger.

At our Aug. 13-17 convention Bud Gates said: "We have four types of critics, and two of them we can change." The latter two he referred to are those who lack knowledge and those who criticize our industry because of our screwups.

The second type of "changeable" critic can only be changed by us as dealers. And only if we run our businesses superbly, as Bud pointed out. In other words, we must take steps to change our image. Bud Gates challenged our industry to do this. Let's remember that any improper business practice—by any owner, manager or account representative in any part of the country—has a ripple effect across the rest of the nation.

This industry supports more than \$1 billion annually in payroll and gives rental-purchase customers the chance to have the things all Americans have in their homes. We cannot allow anyone to take this away.

We must have pride in our companies and in our industry. To quote Gen. George Patton: "The important thing in any organization's success is the creation of a soul that is based on pride." Our pride is the image people need to see.

Finally, I'd like to say thanks to everyone who gave their support and confidence by making me your association president. I will do my best to do as good a job as my two predecessors.

Now, off to the future.

PR

•••••

BY

KEVIN QUINN

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Convention outcomes ensure industry's future

Elected leaders provide strength

WE HAVE JUST COMPLETED THE MOST SUCCESSFUL CONVENTION AND TRADE SHOW IN THE ASSOCIATION'S HISTORY. FOR THOSE OF YOU WHO WERE THERE, I'M SURE YOU'LL AGREE; FOR THOSE OF YOU WHO WERE UNABLE TO ATTEND, YOU WILL FIND A SUMMARY OF THE SHOW IN THIS ISSUE (ON PAGE 30) OF *PROGRESSIVE RENTALS*.

.....

One of the annual events at the convention is the election of board members by the membership. I would like to express my thanks to the two outgoing board members for their work and dedication not only to APRO but to the rental-purchase industry. Robert Moore and Lindsey Semon did an outstanding job during their tenure as APRO board members.

.....

BY

BILL KEESE

My congratulations to the two new board members, Norman Slatton Sr. and Ernie Lewallen. With their enthusiasm and experience, they will be fine board members and I look forward to working with them over the next two years. (*Editor's note: To learn more about APRO's two brand new board members, turn to Dealer Views on page 44.*)

Personally, I would like to thank Wayne Chambers who has served as your president for the last two years. Wayne has had the fortune (or some might say misfortune) to preside as president and chairman of the board during a very tumultuous period for the association and the industry. Actually, all of us in the rental-purchase industry have been very fortunate to have had Wayne's leadership during this time. To me, as I'm sure it is with many of you, Wayne has not only been an outstanding president, but has become a dear personal friend.

Thanks, Wayne.

The last order of business at the convention was for the board of directors to elect new officers. They are Kevin Quinn, president; Allen Lewis, first vice president; Chris Korst, second vice president; Bob Simons, secretary; and Ted Wilson, treasurer. Wayne Chambers will serve as past president for the next year. (*Editor's note No. 2: For more background on APRO's 1993-94 officers, see page 49.*)

For those of you who don't know Kevin Quinn, I would like to introduce him to you. Kevin has served as president of the Washington state dealers association. He has also served as chief fund-raiser for the special fund needed to respond to the critics of rental-purchase. Kevin has also served on the APRO Board of Directors for several years. APRO's board unanimously elected Kevin as president at the last directors' meeting.

As Wayne Chambers recently put it, Kevin has the foresight, strength and, more importantly, the passion to lead the association and the rental-purchase industry in the coming years. I have known Kevin for four years and know him to be the right leader for us at this time. I predict that you will see your association and your industry take another great leap forward during his tenure and leadership.

Having read Kevin's first president's column, I know you will agree.

In this post-convention issue, we continue our profiles of rental-purchase dealers in community service. You'll find the second article in this new series on page 54. Also, on page 16, read about our new association-sponsored property and casualty insurance program. I'm convinced it will save you money—and provide some peace of mind.

There is much work to do and your association is hard at work protecting your right to do business as rental-purchase dealers. We appreciate your continued support for the tasks at hand. **PR**

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Whether it's for a sale or other purposes, it's important to know

How to value your company

THERE IS AN OLD QUIP IN INVESTMENT BANKING THAT SUGGESTS IN ORDER TO PROPERLY DETERMINE THE VALUE OF A BUSINESS YOU HAVE TO KNOW WHETHER YOU ARE TALKING TO A BUYER OR A SELLER. IT'S EASY TO UNDERSTAND THAT OVER THE COURSE OF A LIFETIME BUSINESS OWNERS CAN LOSE SIGHT AS TO THE WORTH OF THE COMPANY THEY HAVE LABORED IN FOR SO MANY YEARS.

On the other hand, buyers are always skeptical of the information presented to them and tend to discount much of what is represented. Value, like beauty, is in the eye of the beholder.

Business owners always have a sense of what their business is worth. However, a formal professional business valuation is something that a business owner may need to obtain only a few times during his or her career. The most frequent need for a professional business valuation, or appraising the value of your company, is typically caused by a material event such as that arising from the following:

- Estate and gift tax planning—situations when a business owner gifts all or a portion of his or her business to children.
- Shareholder or partner disagreements as to the value of the company which may occur as a result of a sale.
- Creation and implementation of buy/sell agreements.
- Changes in the tax status of a company—examples would be conversions to a subchapter S from a C Corporation.
 - Valuing stock options or warrants; and
 - Evaluation of potential acquisitions or divestitures.

Concept of value

The word value has many different interpretations and meanings. Individuals who provide professional business valuation services are very careful in how they define business value. For example, accountants may interpret value as being equivalent to book value, bankers may focus on the liquidation value of a company, an insurance company may be concerned with insurable value, while business owners are concerned with going-concern value.

This article will focus on accepted procedures of determining the concept of fair market value, which best attempts to measure the economic value of the company and is consistent with what business owners would obtain upon the sale of their business.

An accepted definition of fair market value:

The amount that would cause an exchange to occur between a willing buyer and a willing seller, both fully aware of all of the facts and the seller not being under any compulsion to sell.

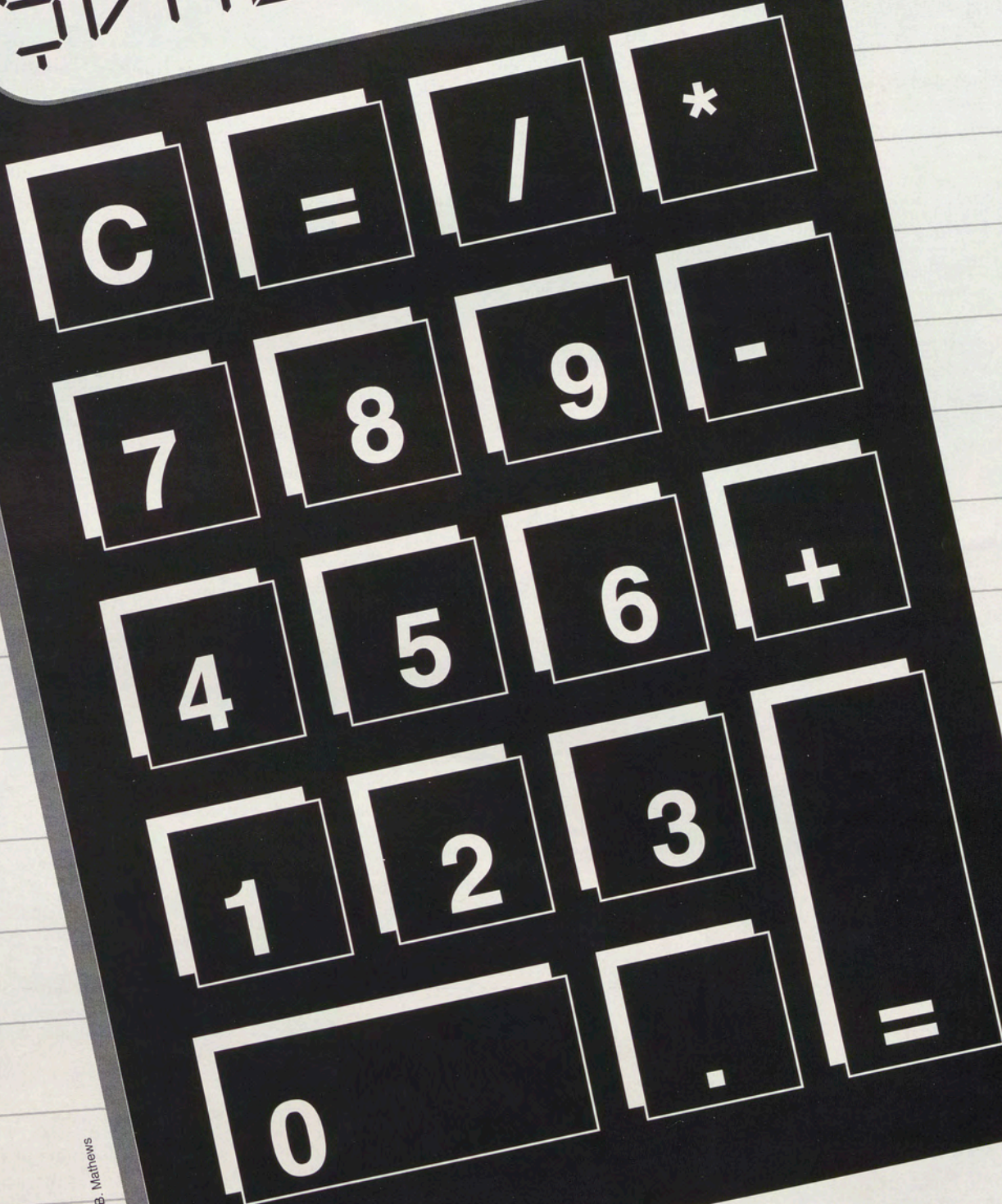
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.....

BY

LAWRENCE LEVINE

\$VALUE???



Joel B. Mathews

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Three approaches to calculating value

There are three general approaches employed in appraising the value of a business:

- Income approach—values a company based on its ability to generate historical and projected earnings.

- Market approach—values a company based on comparables to other publicly held companies or comparable acquisitions of entire businesses, whether publicly or privately held.

- Asset approach—values a company by the market value of its assets.

To calculate the fair market value of a company, the valuation professional will likely employ between two to four different valuation calculations in order to determine a range of the fair market value of the company.

The relative weight of each calculation depends on several factors, including stability of historical earnings, projected future earnings,

The relative weight of each calculation depends on several factors, including stability of historical earnings, projected future earnings, whether the balance sheet contains many tangible assets, quality of information and purpose.

whether the balance sheet contains many tangible assets, quality of information available and purpose of the valuation.

Common ways to value RTO companies

Within the above three methodologies there are a large number of means to value companies. Some of the more meaningful ways to value a rental-purchase company:

- Income approach

Multiple of historical monthly revenue. This is the most common industry method of valuing rental-purchase companies. Some of the factors that the valuation professional would consider in valuing a rental-purchase company would be whether to take the average monthly revenue over the

past 12 months or quarter and whether to include non-rental revenue (late charges and other fees).

Multiple of historical operating income. Another common manner to value rental-purchase companies would be as a multiple of historical operating income. The valuation professional would need to determine which definition of operating income was the most relevant.

Some of the more common approaches:

- Earnings before interest and taxes;

- Earnings before interest, taxes and amortization of merchandise inventory;

- Earnings before interest, taxes, depreciation and amortization less expenditures for merchandise and fixed assets; and/or ...

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—Pre-tax income.

- Discounted future cash flow.

This concept recognizes that the real value of a company is in its ability to generate future earnings and cash flow. Using detailed future projections of earnings and cash flow, the projected cash flows are discounted back to a value in today's dollars using a discount rate equal to the company's weighted average cost of capital.

- Market approach

This valuation method requires selecting a number of publicly traded companies (for the rental-purchase industry good comparables might be Comcoa and Aaron Rents) which offer similar products and services as the company being valued.

Ideally the comparison is made to companies with similar revenue size and mix, earnings, cash flow results and capital position. The concept supporting this methodology is that the public marketplace most efficiently values companies and—by comparing the value of a comparable public rental-purchase company to that of a privately held competitor—provides for a valuation consistent with the values indicated in the public market.

In comparing a privately held company to that of a publicly held company, the valuation professional may compare the publicly held firms price/earnings ratio, market value to revenue, or market value to EBIT to the privately held company's earnings or cash flow.

A second means of calculating value under a market approach is to gather recent valuation multiples of companies that have been acquired. Comparing the company being valued to the value of a company that was recently sold provides an excellent indication of value. The disadvantage of this method is that it is frequently difficult to obtain this information.

Each valuation approach will yield a different number for the value of the company. Therefore, the valuation professional will compare each approach and determine a range of values for the company. The valuation professional will apply his or her subjective judgment as to the validity of each approach and reach a conclusion as to the value of the company.

Adjustments

In analyzing the value of a privately held company, simply taking the financial statements and determining the value of the firm is insufficient. It is incumbent upon the valuation professional to go beyond the financial statements and understand the industry and business conditions the company being valued operates under. In addition, management's thoughts on strategy and operations are important as well in valuing the company.

Adjustments to historical earnings. It is not uncommon for owners of privately held companies to receive compensation in excess of that required to remunerate a professional non-owner manager of a company. Depending on the circumstances, the valuation professional may determine it is appropriate to add back excess compensation (above market compensation) paid to an owner. The impact of this add-back would be to

CONTINUED ON NEXT PAGE

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Continued from previous page

increase earnings and, therefore, the value of the firm.

Similarly, there may be other adjustments to operating expenses which are appropriate add-backs to earnings as they would not be incurred under other circumstances. Such examples may include above-market rent paid by a company to its owner who leases to the company real estate held outside of the corporation as well as travel and entertainment expenses.

Other adjustments to determining value. When determining the value of a privately held company, the valuation professional may make other material adjustments to the calculated value of the company. While there are large numbers of premiums or discounts that a valuation professional may deem appropriate for a particular valuation, some of the more common adjustments follow:

- Lack of marketability discount—this adjustment recognizes that selling shares in a privately held

company is more difficult than that of selling shares in a public company. Since an investment in a private company is less liquid than that of a public company, academic studies show that privately held stock may be worth up to 35 percent less than holdings in an equivalent publicly held company.

- Minority interest discount—this adjustment recognizes that a minority stockholder (someone who owns less than 50 percent of the stock of a company) frequently is unable to have a substantial amount of control over the important decisions of the company as well as its operations.

This concept suggests that it is much harder to sell a minority interest than to sell a controlling interest in a privately held company. Therefore, if there is a transfer of a minority interest in a company, a discount between 20 percent to 70 percent can be taken because of the diminution of value associated with an illiquid minority investment.

- Premium for control—this adjustment recognizes that there is additional value by virtue of controlling the affairs of a company.

When to get help

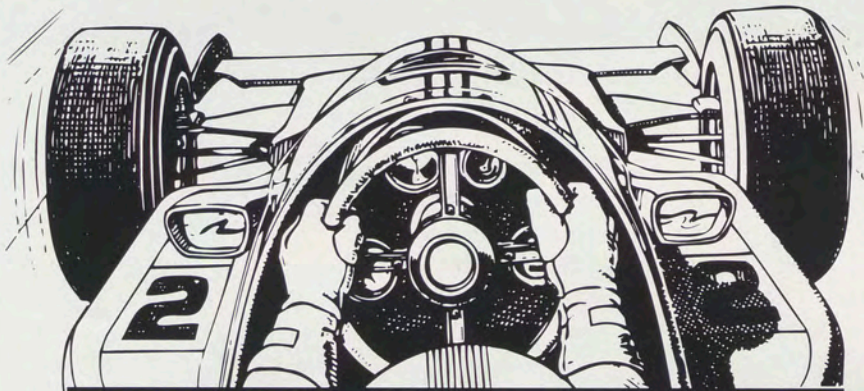
While the need to obtain a professional valuation or appraisal may be an uncommon occurrence, the need frequently arises at crucial moments in a company's life cycle. When a professional valuation is required, usually a significant occurrence is happening to the company in terms of ownership changes or a change in the tax status of the company.

Business owners believe they know what their company is worth. However, this sense is usually unacceptable for the Internal Revenue Service or when shareholders disagree as to the value of their holdings.

Valuing a business is more of an art than a science, often requiring that a range of values be provided rather than an exact dollar amount. **PR**

Lawrence Levine is a vice president in the corporate finance department of AM&G Financial Services. Chicago-based AM&G specializes in providing private investment banking services to middle-market companies. Levine has 12 years of corporate finance experience. He can be reached at (312)207-6167.

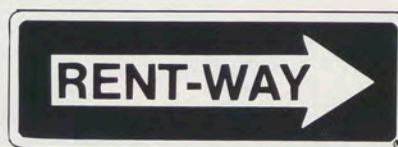
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Friday, August 13
Welcome reception "Black Cat Party"



Saturday, August 14
Ribbon cutting champagne welcome




Saturday, August 14
Gala cocktail reception "Saturday Night Live"

Quasar®

Saturday, August 14
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Sunday, August 15
President's breakfast & awards

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Monday, August 16
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Monday, August 16
Awards banquet

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.....

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Until last April, the association endorsed a property and casualty insurance program through Travelers. But discouraged by a lack of growth in the program after eight years of dealings, APRO's board of directors began actively searching for other options.

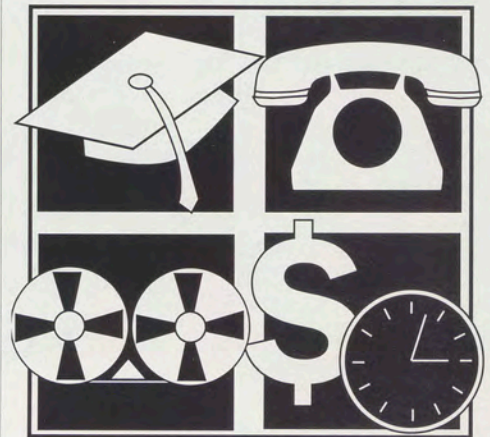
The goal became to design an effective national program that was both understanding of the rental-purchase industry as a whole and responsive to the needs of its members. So by July of last year, APRO and Travelers came to a mutual understanding to part ways.

In the search for a new program, the association heard detailed presentations from more than 50 companies, according to APRO Executive Director Bill Keese.

"Mainly what we looked for was a group with the strength to market property and casualty insurance nationwide, while still catering to the individual owners on a local scale," Keese said. "ITT/Hartford provided that, and really negotiated a very good package overall."

Keese adds that while most dealers want local agents to come in and talk to them, it's simply not possible with a national company. "So we went for the next best thing—local claims agents who come in and see the damage immediately."

Also, routine bidding procedures



MEMBER SERVICES

will be expedited through this program, according to Keese. "They have streamlined the information needed to give a bid on what insurance coverage will cost individual store owners. If they have an existing policy, they can get the bid over the telephone."

Keese adds that ITT/Hartford will work diligently to get the bid out within a week in the form of an actual policy which can be accepted or rejected. "If they reject it, fine. But if accepted, then they have the actual policy in hand."

There will also be special rates available to APRO members which have been difficult to find in the past. "We've always had problems in getting the cost down while still maintaining a successful program. But the bids I've seen are about 10- to 15 percent below what the dealers are paying."

Paul Burkett of the Meadowbrook Insurance Company, who will be marketing the policy nationally, says the reason the premiums have routinely been so high for RTO dealers is because of their specialized needs.

"They require unique coverages, from inventory 'shipment-to-store' coverage to protection from auto loss-

es, crime and property damages," says Burkett, vice president of operations for Meadowbrook.

Burkett says many insurance companies see RTO as a risk in both auto losses and property damages because of the people driving the vehicles and moving the furniture.

"The average RTO store owns one to two vehicles," says Burkett. "In that area alone, there have been significant losses—heavy auto and property damages ... gouging walls, that sort of thing. It all comes down to the quality of the store's employees."

But Burkett adds that the Hartford plan offers a solution to that problem. "We will try to help members with what to look for in finding quality employees by offering regional seminars on safety and loss-control commitment issues."

Ultimately the group will structure a dividend plan to individual store owners—sort of a profit-sharing approach, according to Burkett. "If there are no losses, they'll get some of it back."

On the down side, insurance com-

The goal became to design an effective national program that was both understanding of the rental-purchase industry as a whole and responsive to its members.

The business plan will offer a broad variety of new benefits ranging from local claim services, unique inventory coverages, regional seminars, special APRO rates and expedited bidding procedures.

panies are still reluctant to venture into certain regional areas of the country right now. For instance, Florida has sustained heavy hurricane and storm losses recently, making it a high-risk state for coverage.

As a result, Hartford has designed a program to offset some of these costs. In continuing strict underwriting of certain regions, ITT/Hartford will employ a spread-of-risk approach. "As the premiums go up in other key states like Georgia, Texas, Tennessee, etc., it will help offset some of the costs in these problem areas."

J.R. Gandy and Company of

Houston, in association with Meadowbrook Insurance Group of Colorado, will help market the policy which is underwritten by the ITT/Hartford Insurance Companies.

"This thing is really going to be successful. It's definitely a long-term program," says Gandy. "And from what we've seen quoted so far, it's substantially under price. Fifteen to 30 percent in some cases."

For more information on APRO's latest member benefit, contact Carolyn Fitzsimmons at the APRO office—(512)794-0095.

—Kelli Montgomery

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Ways to improve employee selection

PERSONNEL PROBLEMS ARE EASIER TO PREVENT THAN TO SOLVE. REMOVING A PROBLEM EMPLOYEE FROM YOUR PAYROLL IS MORE DIFFICULT THAN AVOIDING TO HIRE HIM OR HER IN THE FIRST PLACE.

•••••

How can you tell the honest applicant from the dishonest one? The punctual from the habitually late? The polite from the surly? Develop a screening process that acquaints you with the applicant's shortcomings as well as his assets. Here are 10 easy suggestions that will help identify the kinds of applicants that are likely to become problem employees.

Suggestion 1: Avoid crisis hiring.

When a company suddenly becomes shorthanded, the pressure to hire a body—any body—increases dramatically. The temptation arises to short-circuit the standard screening process and hire a replacement immediately, which greatly increases the odds of hiring a problem employee.

Encourage applicants to apply even when there are no job openings. Keep their applications on file. Employees often leave without notice and having qualified applicants waiting in the wings is the best way to avoid crisis hiring.

Suggestion 2: Avoid interviewing from résumés.

The applicant's résumé is his personal advertisement. Its purpose is to highlight his positives and hide his shortcomings. Most applicants don't lie on their résumés; they merely omit negative information. Unsuccessful short-term jobs, reasons for leaving and dates of employment are items most frequently omitted. Interviewing an applicant straight from a résumé can lead you to overvalue his assets and never see his liabilities.

Suggestion 3: Interview from completed employment applications.

A critical look at your company's employment application may suggest ways it can be improved. Applications of the one-page stationery store variety are too brief. They fail to solicit vital information that can be legally



Joel B. Mathews

requested. A comprehensive employment application is the cornerstone of every successful screening program. It will identify many undesirable candidates early in the selection process.

Don't accept an incomplete or half-hearted effort on the application.

Suggestion 4: Study the applicant's employment history.

Recent jobs are usually good predictors of future performance.

The application should provide enough space to allow the applicant to list every job held in the past five to 10 years. The personal saga of success or failure is clearly displayed.

Application instructions should direct job seekers to list every job, including part-time and second jobs. Precise dates of employment expose gaps between jobs, leading the employer to more information.

Suggestion 5: Check work references.

Requiring previous supervisors' names and phone numbers makes reference checking easier. Former supervisors know the applicant far better than their personnel departments.

Although reference checking is frustrating in today's litigious society, it is still a vital ingredient in hiring.

Suggestion 6: Obtain a credit report.

Ask the applicant, "If I were to obtain a copy of your credit report, what would it show?" If the applicant is irresponsible in handling his own money, you cannot expect him to competently handle your company's money. Employees who extend their credit to the limit may feel com-

elled to steal from your cash register. They may think they have no other recourse when an unexpected financial crisis arises.

Where appropriate, consider obtaining a copy of the applicant's credit report with his consent. The credit report is a financial report card of the person who would be handling your company's property.

Suggestion 7: Ask about criminal convictions.

Ask the applicant, "If you were to bring me a copy of your criminal record, what would it say?" The applicant who has never been convicted of a criminal offense will tell you so without hesitation. But, he who hesitates usually has something to hide. The applicant who acknowledges a recent criminal conviction will also be willing to discuss the circumstances.

Suggestion 8: Ask to see the applicant's driver's license.

This simple step quickly establishes his identity and will often save your time. A driver's license contains a lot of valuable information.

If the applicant cannot produce a valid driver's license, he should be able to come up with some form of identification. The applicant without a valid driver's license should be asked how he plans to get to work.

Suggestions 9 and 10: Use a written honesty test.

The case for written honesty tests is strong. Research has shown that honesty tests can dramatically reduce internal theft. Honesty defined as the propensity to steal can be predicted accurately by these questionnaires.

Honesty tests can uncover applicants' shortcomings in several important areas, including work history, substance abuse, and work and customer-service attitudes.

These tests also ensure that no critical information areas are overlooked. A comprehensive honesty test can cross-check the effectiveness of your applicant screening program.

PR

(Editor's note: James W. Bassett submitted the above article. He is president of a firm that specializes in theft investigation and pre-employment screening. He can be reached at 513-421-9604.)



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BY

KELLI

MONTGOMERY

APPLIANCES HAVE BEEN A PART OF THE AMERICAN DREAM FOR DECADES. THE IMAGE OF APPLIANCES CONTRIBUTING TO THE GOOD LIFE—BY HELPING TO FREE UP MORE TIME FOR FAMILY AND LEISURE PURSUITS—WAS PREDOMINANT IN ADVERTISING MESSAGES FOR YEARS.

Today, these labor-saving tools serve the same basic purpose as they did in the 1950s. Appliances in the '90s are considered necessities rather than luxuries. But the emphasis is still on convenience.

Appliance manufacturers in the rental-purchase market are adding more features and services these days with larger-capacity refrigerators, portable dishwashers, radiant-surface cooking ovens, automatic laundry products, and encasement air-conditioning units.

And while the increased features and specialty programs in the appliance industry won't cost rental dealers much more, new environmental controls on the products will.

"Just as manufacturers had Department of Energy (DOE) regulations to comply with in 1993, you'll have compliance in 1994 in refrigeration products with CFC reduction ...as well as energy controls in

laundry products with automatic cycles," says Dick Gossom, manager of specialty market sales for G.E. Appliances. He predicts a price hike in the appliance industry in the near future to meet governmental demands.

"Most everybody will be moving toward a 50 percent CFC reduction by 1994 and total CFC elimination by 1996," he contends. "And with all of the manufacturers spending so much money on it, there will be another round of price increases in refrigeration products very soon."

However, rental-purchase dealers and customers may find it difficult to see what they are spending more money on because the changes will be practically invisible, according to Gossom. "It's in the type of components you're using; the more energy-efficient compressor, relays, insulation and other internal components."

CONTINUED ON NEXT PAGE

Continued from previous page

Gossom maintains that while manufacturers have done whatever is necessary to retain capacities in the six million unit-per-year refrigeration industry, they have not spent the megabucks on retooling in the smaller freezer industry.

"They have simply gone to the old fiberglass or some other insulating material—and that means thicker walls between the outer case and inner liner, therefore taking up more usable space."

So capacities have come down in freezers as a result of DOE requirements. "What people were selling last year as a 16- or a 17-cubic-foot unit is this year a 14- or a 15-cubic-foot box."

Tom Kitchens, national rental sales manager for Whirlpool, says his company's 10-cubic-foot chest freezer continues to be a top seller in product lines based primarily on its size. "It's rather compact and will fit into most peoples' homes or apartments."

But in refrigeration, capacity is still the most important thing consumers want, according to most manufacturers.

Jenn Air's Alan Boring has seen a shift in the marketplace in this area. "It used to be 15- and 17-foot refrigerators for the norm. Now it's getting up into the 19- and 21-foot units."

Boring adds that dealers have found consumers want more features. "They want more sophisticated products—additional features, better value and service have all become increasingly important to consumers in the rent-to-own industry."

Al Zagorniak of Sears also recognizes the market demand for upgraded products, and says with his company's special-orders program rental dealers can be provided with specialty products through a next-day service system.

"If a customer desires a refrigerator with the ice-and-water through the door and an upgraded side-by-side unit, they (RTO store personnel) can order it through us and they don't have to worry about losing the customer to another store in the meantime."

In addition, refrigerators designed for a built-in-look, along with those sporting custom-made or custom-cut handles, are showing promise in the rental-purchase industry, according to Zagorniak.

Like refrigerators, laundry equipment is big business in the rental-purchase market, making up about two-thirds of the appliance mix in total product-line sales. As a result, manufacturers are introducing machines with bigger capacities, more cycles and speeds.

Jenn Air's Boring says the continued popularity of washers and dryers

in the RTO outlets has led his company to design a machine specifically with rental-purchase in mind. It's called W20H-23 Magic Chef.

"It gives consumers the features they've been asking for—out-boarded speed controls, less wash-expense speed controls, more user friendly and larger capacities," he says. "They don't want just the basic products anymore."

But Whirlpool's Kitchens says customers just want quality machines with a variety of cycles that can take care of their garments. "We're still selling pretty much mid-line appliances—two-speed, seven- or eight-cycle machines. Not the very top of the line and certainly not the bottom."

In addition, there has been a big boom on full-size washers and dryers this year, according to rental dealer Jim Declue. "We never keep them in stock. We carry the apartment size and the full size, and they are definitely after the larger-capacity ones."

He adds: "People want the name brands, too."

But regardless of customers' preferences in laundry equipment, one thing is certain—timed-only dryers are a thing of the past.

According to DOE regulations, after May 1, 1994, all dryers manufactured for sale in this country must have automatic cycles. The reason being that while most clothes loads take about 30 minutes or less to dry, the Department of Energy found that machines with timed-only cycles tend to take much longer, often set in excess of two hours.

G.E.'s Gossom thinks this will have a big impact on RTO businesses because currently about 5 percent of the dryer mix in rental-purchase is timed dryers. "Owners will have to face the fact that their price points on dryers are going to go up a little bit because now they will all have automatic temperature controls."

In ranges, Gossom says the growing trend is the move to glass tops, toward radiant-surface cooking. "It will take longer in rent-to-own because the radiant's price points are about twice that of a standard oven, but it's something on the horizon."

In this area, Gossom thinks customers are going for new features these days, and sees little difference between rental-purchase customers and retail

Who's who in appliances

The following list of appliance companies that cater to rental-purchase provides useful contact information, as well as a brief description of the type of appliances each company manufactures or distributes. All are either *APRO* Associate Members (*), advertisers (+) in *APRO* publications or *APRO* convention exhibitors (†).

† **Admiral/Maytag**
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Major appliances

*† **Amana**
Refrigeration, Inc.
Highway 220
Amana, IA 52204
(319)622-2688
Amana/Speed Queen
appliances

† **Brother International Corp.**
200 Cottontail Ln.
Somerset, NJ 08875
(908)356-8880
Appliances

*† **GE Appliances**
Appliance Park, AP4-241
Louisville, KY 40225-0001
(502)452-5655
Major appliances

† **Fedders North America**
3421 Rt. 22 East
Whitehouse, NJ 08888
(908)725-0500
Appliances

*† **Frigidaire Co.**
6000 Perimeter Dr.
Dublin, OH 43017
(614)792-4100
Major appliances
(formerly WCI)

† **Jenn-Air**
3035 Shadeland
Indianapolis, IN 46226
(317)545-2271
Appliances

*† **Sears Contract Sales**
9701 Metcalf Ave.
Overland Park, KS 66212
(913)642-8835
Major appliances

*† **Whirlpool Corp.**
2000 M63
Benton Harbor, MI
49022
(616)923-2417
Major appliances

shoppers. "They want upscale products as well as anybody else wants upscale products."

For the most part, rental dealers continue to go for the basics. "We're still in gas and electric, concentrating on mid- to low-line models. They're looking for just a basic gas range," says Whirlpool's Kitchens.

He adds that he has seen more self-cleaning ranges moving lately.

Like ranges, dishwashers make up a very small part of the appliance mix. In this area, RTO store owners are basically looking for either the portable or convertible models.

Toni Borski, vice president of sales for Admiral, says the portables are really the only ones available to the rental-purchase market. "Nobody really wants to rent an installed, under-the-counter one."

Declue, the RTO dealer, says what rental-purchase customers do want are upgraded products. "They're looking for 12 or 15 different levels of washing. They want features on their dishwashers."

Declue adds that while portables are more costly than built-ins, cus-

While the new environmental controls may not be too visible, they will require manufacturers to redesign and improve their product.

tomers are willing to pay extra for the mobility and easy faucet hook-ups of the self-contained portable units.

Also, air conditioners are making a big splash in the rental-purchase market this year. "It's something that started about six years ago and is increasing every year as importance to the rental dealer," explains Eddie Collier of Fedder.

Collier currently deals with several hundred rental-purchase dealers across the nation, and says he hasn't noticed any significant regional differences in air-conditioning units.

"Surprisingly, we do exceptionally well in the Midwest and the Northeast. The difference is they have only a four-month window where the South has probably eight to nine months. But the number of units they're putting out

is pretty comparable."

On the horizon, there are new and exciting products in store for the rental-purchase industry. For instance, G.E. Appliances will introduce its recessed-handle product, designed specifically for rental-purchase, on larger-capacity refrigerators.

In addition, G.E. is working to completely redesign its laundry-product line, using less water and energy, in an effort to comply with future environmental standards.

"It will be ready to hit the street by early 1995," says Gossom.

And while the new environmental controls may not be too visible, they will nonetheless require manufacturers to continually redesign and improve their product lines to save end-users more energy, more water and, ultimately, more money.

"This is not merely a G.E. phenomenon—it's an industry phenomenon," concludes Gossom. **PR**

Kelli Montgomery is a University of Texas graduate in magazine journalism. She just completed a summer internship in APRO's communications department.

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*How some rental-purchase dealers
coped with another natural disaster*

The Midwest Floods of '93

MANAGER SCOTT McCAMPBELL RECALLS JULY 9, 1993, AS A "TOTALLY NORMAL FRIDAY MORNING" AT HIS ACE RENT-TO-OWN LOCATION IN IOWA, A QUARTER MILE FROM THE DES MOINES RIVER. BUT HIS PARKING LOT—DRY WHEN THE STORE OPENED—BEGAN TO FILL WITH WATER FROM STORM DRAINS AT 10:30 A.M.

By 2:30 p.m., police warned him he could expect water up to the store's front by nightfall. That afternoon, he found what he believes were the last two trucks available in the area to move his merchandise to higher ground.

Store personnel worked until 8 p.m., filling trucks with the most expensive items, and parking them at McCampbell's home several miles away. Then they and other merchants from the strip mall sandbagged the storefronts until midnight.

Extremely heavy spring and summer rains filled rivers flowing into the

Mississippi—from South Dakota to south Kansas. Finally, the levees could not hold, and flood waters overran the cities, towns and farmlands along the Des Moines, Raccoon, Missouri and Mississippi rivers. All waterways were involved—disrupting and displacing thousands of homes and businesses in its eight-state wake.

When the Great Flood of 1993 moved into Des Moines, merchants and homeowners like Scott McCampbell waited out the night of July 9 to see how their efforts would work against such a monumental, natural force.

.....

BY

ELIZABETH

FRENCH



Employees of an Ace Rent-to-Own store in this mall managed to keep the business afloat.



Photos courtesy of Ace Rent-to-Own

This temporary store location was set up on higher ground in Des Moines, Iowa.

But nobody was prepared to actually see what happened in the few hours between midnight and Saturday morning.

"We hitched a ride (to the front door) on a four-wheel drive. The parking lot was so full," said McCampbell of his RTO store. "We managed to print past-due lists and lists of accounts coming due through the end of July. We set up a van with the money drawer across the street and took payments there. At 3 p.m., we were forced to evacuate and were unable to do any business close to our location."

Surprisingly, at 7 Saturday night the sandbags were dry eight to 10 inches above water level, and McCampbell planned to go back Sunday for the merchandise left behind—electronics and appliances.

But Sunday morning, water was nearly two feet deep inside the building, and still rising. He realized they were in trouble and needed to find another building, immediately.

On Monday, temporary building space was located three miles away. McCampbell and helpers moved through familiar streets—given a new look by the muddy water.

The water seemed to slow everything down; it was placid, in contrast to the frantic pace of evacuees, National Guard and police relocating people and property. But Ace RTO rescued its computer in a bass boat, came back on-line in a temporary location, and was back in business.

McCampbell believes he and his



Manager Scott McCampbell, left, and his account manager, Ed McCulloch, about to embark on mission to rescue Ace Rent-to-Own's computer equipment.

coworkers moved about as fast as possible after they were notified. Although Target was called and warned between 8 and 9 Friday morning, the word had not spread through the strip mall.

"Target had a considerable amount of time—more than we had to prepare. We were just kind of left hanging."

Fortunately, other merchants along the strip worked together to protect and salvage their merchandise.

As of early August, Ace was still in the temporary building. "At this point, we are waiting for word from the Environmental Protection Agency (EPA). They did environmental testing on the drywall at different levels and the carpet and the ceiling to deter-

mine how much contaminant was present (in the permanent store)."

One month and even later after the big flood, people were still cautious. "The streets are opening now, but people are reluctant to rush back in," McCampbell said. "Everyone is a little concerned about the August rains that usually come. If they are very intense north of Des Moines, it is possible that the same situation will occur. With 10 inches of rain reported the weekend of Aug. 29, this is a real danger."

In the aftermath, McCampbell says they were battling a collection process that had gotten very difficult. "Everyone on the payment end is affected, with 'flood' being the perfect excuse for nonpayment, lost jobs, damaged furniture. We are being more generous than we normally would with a customer."

McCampbell added: "It is an advance-type situation where we rewrite the agreement to extend the time it would take for their next paycheck to be able to make their regular payment. Then that time is added at the end of the contract. We offer an optional waiver of liability, releasing the customer from having to continue paying for anything lost."

Ace employees went the extra mile in working with their rental-purchase customers after all the flooding.

"Also, there is the possibility of temporary replacement," McCampbell pointed out. "We would allow them

CONTINUED ON PAGE 43

Brand Power

25" Stereo TV

27" Stereo Console TV

27" Stereo TV



Portable Stereo/
Cassette Player



20" Stereo TV



25" Stereo Console TV



Hi-Fi VCR

Nipper

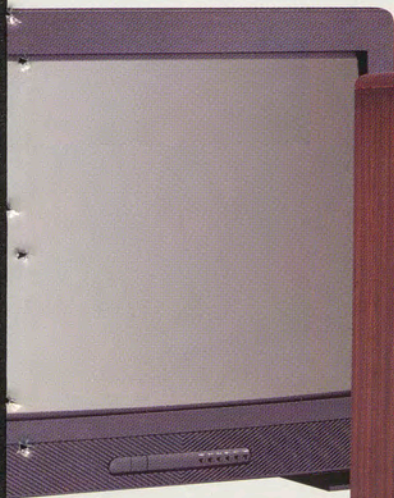
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52" Projection Stereo TV



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Full-Size VHS Camcorder



35" Stereo TV

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Covering APRO convention '93:

Big Time at Bally's

NINETEEN-NINETY THREE WAS A REMARKABLE YEAR FOR APRO CONVENTION-GOERS. THE ANNUAL CONVENTION WAS SET IN LAS VEGAS—ALWAYS A HOT SPOT FOR RENTAL-PURCHASE DEALERS. HOWEVER, THE SHOW TURNED OUT TO BE EVEN BIGGER THAN EXPECTED, BECOMING THE BEST-ATTENDED APRO CONVENTION EVER IN THE EVENT'S 13-YEAR HISTORY.

APRO '93: Right on the Money, the association's annual convention and trade show, surpassed all expectations with more than 1,430 participants—several hundred more than attended last year's convention in New Orleans.

Popular seminars, state-of-the-industry concerns, and a sold-out trade show made this APRO convention one of the most memorable ever.

Heated issues on the legislative and IRS fronts stirred APRO members to action—spending time and money on RTO causes facing their industry. Through a united effort, APRO members participated in APRO-PAC efforts to raise money and ideas for RTO's future, from raffles and personal checks to special campaigns.

On education, members attended seminars ranging in topics from tax and accounting, and managing your business more effectively, to media relations, legal updates and customer relations.

For entertainment, there was a Friday night "Black Cat" party and a "Saturday Night Live" costume gala (both sponsored by FORESIGHT and John Alden Financial Corp.), a golf tournament, and the grand-finale Honeymoon in Vegas awards banquet and dance, complete with the Flying Elvises—or Elvi, the troupe's own change in the plural form of its name.

APRO Convention Daily was sponsored by Philips Consumer Electronics. For a complete account of APRO '93: Right on the Money, here's a look by major event:

General session

The 1993 APRO General Session and Business Meeting captivated members' interest, packing two-and-a-half hours worth of dynamic speakers, regular business such as the board elections, the unveiling of the association's first-ever annual report, and the latest industry updates from association leaders.

On Saturday, Aug. 14, APRO members in good standing cast their ballots to elect a new board of directors. Only eight positions were up for grabs this time because of the staggered two year terms of the full 16-member board.

Six board members were re-elected: David David, Dick Eichlin, Allen Lewis, Kevin Quinn, Darrell Tissot and Ted Wilson. Also, Ernie Lewallen and Norman Slatton Sr. were newly elected directors.

Following the elections, Walter E. "Bud" Gates, chairman/CEO of THORN Americas, Inc. (Rent-A-Center), took the stand, commanding attention—and a standing ovation—for his speech on the future of the RTO industry.

Gates stressed that the industry's mem-



Bally's in Las Vegas was the site for APRO '93: Right on the Money, which attracted more than 1,400 participants Aug. 13-17.

bers had to get beyond just "survival mentality" as well as cooperate and run their businesses "superbly," look at the bigger picture and "impart knowledge" to those outside rental-purchase.

From there, U.S. Rep. Larry LaRocco, D-Idaho, educated attendees on how today's Congress works and how to effectively communicate with elected leaders.

"The first rule of politics—communicate early and often," he said. "It's never too early to start communicating, and you can't cast your net too wide. Get to know your own representatives and senators first. After that, consider adopting at least one congressman from a neighboring state ... If you don't make these contacts, congressmen will still hear about your business, but it won't be anything good."

LaRocco added that while it's difficult to predict what's going to happen in the rental-purchase industry, there is clearly not a "crisis situation" yet and that the most valuable commodity dealers have right now is time.

• • • • •

BY

KELLI MONTGOMERY

In an energetic presentation entitled "Change, Challenge and Choice," sponsored by Quasar, keynote speaker Nate Booth stressed the importance of adapting in our rapidly changing world. "Those of you who are committed to being flexible for the next three days—and your entire career—will be able to meet challenges."

Next on the agenda, the government relations part of the presentation included speakers Bill Keese, Wayne Chambers, Ron Waters, Chris Korst and Kevin Quinn—all of whom outlined specifics on the industry's grass-roots efforts and fund-raising plans.

Task force member Kevin Quinn asked rental dealers to commit \$300 per store to help the industry's cause. He made a personal appeal for individuals to "make a commitment of \$50 per person at the PAC store" which

was set up outside the exhibit hall.

"The funding we're putting together is for real things. Henry Gonzalez is real. The TAM request is real. The negative publicity is real," he said.

Key points in the 1993 general session included educating members on three areas—federal lobbying, media relations, and tax and accounting.

Awards banquet

Highlighting the last night of convention festivities, the Honeymoon in Vegas awards banquet and dance (sponsored by High Touch and Voyager Insurance Companies) honored outstanding accomplishments in rental-purchase over the past year. (Thomson Consumer Electronics sponsored the pre-banquet reception.)

APRO Executive Director Bill Keese recognized convention sponsors, presented advertising awards to RAE winners, and announced the official golf tournament results.

Next, Ron Waters, APRO director of government affairs, honored Florida (Margo Tillotson, president) as the

CONTINUED ON NEXT PAGE

Continued from previous page

state association of the year and detailed initiatives for APRO-PAC. Additionally, he recapped events from the presidents' breakfast (sponsored by Fraenkel Furniture) on Sunday, Aug. 15, where three other states were singled out: Texas, the delegation with the largest attendance at convention (Carlton Fletcher, president); Arkansas, best attendance at APRO seminars (Fred Pearson, president); and Michigan, the most improved state association for 1993 (John Burnett, president).

Then, outgoing APRO President Wayne Chambers gave his farewell remarks, announced the new board of directors and thanked the outgoing directors. Additionally, he honored several outstanding APRO members from the past year.

Chambers also honored APRO Executive Director Bill Keese with a special presidential recognition award, which had the inscription: "for outstanding contributions to the association and rental-purchase industry."

Whirlpool's Tom Kitchens received the APRO Vendor of the Year award; RTO congressional spokesperson Manuela Salazar Sasarak was named APRO Rental Dealer of the Year; and former association president Ted Wilson of Alenco was presented with the APRO President's Award.



APRO staffer Ron Waters helps member Bob Moore at APRO-PAC booth.



The annual golf tournament boasted more than 160 competitors this year.



Jane and Ted Wilson, along with Ernie Lewallen, have fun at a FORESIGHT party.



APRO convention-goers leave the general session for exhibit-hall grand opening.

Throughout the entire evening "Honeymoon in Vegas" provided dancing and entertainment for attendees—from the initial parachute landing and musical performance of a dozen Flying Elvi to the end of the evening's comical wedding ceremony performed by Champion's Larry Sutton, known as the "Reverend of RTO."

New board meeting

Following Monday night's Honeymoon in Vegas finale the newly elected board of directors met collectively for the first time the next morning, Tuesday, Aug. 17. As the last official order of business at the convention, the board elected association officers for the coming year.

Election results: Kevin Quinn, president; Allen Lewis, first vice president; Chris Korst, second vice president; Bob Simons, secretary; and Ted Wilson, treasurer. In addition, Wayne Chambers will serve as past president for the next year. (For more on APRO's top officers, see page 49.)

RAE awards

Participation in APRO's Rental Advertising Excellence (RAE) Awards skyrocketed this year as companies battled for the most prestigious advertising honors in the rental-purchase industry.

Hilde Parker, APRO's special programs coordinator, said entry numbers rise each year as the contest gains



FORESIGHT's Susan Eyster, right, welcomes dealers on opening of exhibit hall.

**All photos from
APRO '93:
Right on the Money!
Aug. 13-17
Las Vegas**

recognition and esteem.

"Since the RAE awards are the only ones given in the rental-purchase industry, each year the competition becomes tougher as the contest attracts more participants."

And with more than 150 entries across seven categories—including print material, direct marketing, newspaper, radio, television, specialty items advertising, and billboard/outdoor

advertising—participation in future RAE contests is not likely to die down either, according to Parker.

"The RAE awards are a source of pride for APRO members and have come to symbolize some of the most creative work in the rental purchase industry."

Here's a look at the 1993 RAE award winners:

Catalog brochure less than 4 color—gold, Brandon Renter Center; silver, Diamond Rentals; bronze, Diamond Rentals.

Catalog brochure, 4 color or more—gold, Action Rent-To-Own; silver, Blue Ribbon Rentals; bronze, Blue Ribbon Rentals.

CONTINUED ON NEXT PAGE



Congressman Larry LaRocco, D-Idaho, accepts APRO-PAC cap from APRO Director of Government Affairs Ron Waters during general session and business meeting.



Kevin Quinn, who was later elected APRO president, reports on task force.



Live, from Las Vegas, it's Saturday Night! Cat-like Shelley Martinek and 'Mr. Bill.'

Continued from previous page

Letterhead, logo or trademark design—gold, Paradise Rent-to-Own; silver, United Household Rentals.

Poster, less than 4 color—gold, Paradise Rent-to-Own.

Poster, 4 color or more— gold, Action Rent-To-Own; silver, Action Rent-To-Own; bronze, Action Rent-To-Own.

Door hangers, coupons, contests— gold, Diamond Rentals; silver, Rentown USA; bronze, Countryside Rentals.

Other solicitation—gold, Action Rent-To-Own; silver, Aaron's Rental Purchase; bronze, Action Rent-To-Own.

Newspaper black and white, more than half page—gold, Save All Rentals; silver, Countryside Rentals; bronze, Save All Rentals.

Newspaper, color, half page or less—gold, Save All Rentals; silver, Action Rent-To-Own; bronze, Action Rent-To-Own.

Newspaper, color, more than half page—gold, Rentown USA; silver, Champion Rent-to-Own; bronze, Save All Rentals.

Newspaper free-standing insert— gold, Elmen Enterprises/Rent to own; silver, Elmen Enterprises/Rent to own; bronze, Rentown USA.

Radio, 30 seconds or less under \$100—gold, United Household Rentals; bronze, United Household Rentals.

Radio, 30 seconds or less over \$100—gold, Rent America; silver, United Household.

Radio, 60 seconds under \$100— gold, Countryside Rentals; silver, Champion Rents; bronze, Champion Rents.

Radio, 60 seconds over \$100—gold, Champion Rent-to-Own; silver, America Rents; bronze, Champion Rent-to-Own.

Television, 30 seconds or less under \$1,000—gold, Rentown USA; silver, Hubbell's Rent-to-Own; bronze, Rentown USA.

Television, 30 seconds or less over



During Monday night's finale, Wayne Chambers and the more recognizable Bill Keese—yes, that really is him at left.

\$1,000—gold, Aaron's Rental Purchase; silver, Action Rent-To-Own; bronze, Fastway Rent-to-Own.

Television, 60 seconds over \$1,000—gold, Action Rent-To-Own.

Specialty items advertising, unit cost over \$2—gold, Action Rent-To-Own; silver, Action Rent-To-Own; bronze, Action Rent-To-Own.

Specialty items advertising, point of purchase material—gold, Fastway Rent-to-Own; silver, Rent America; bronze, Rent America.

Billboard/outdoor any size—gold,



The Blues Brothers set the tone for a very participatory Saturday Night Live party.

Blue Ribbon Rentals; silver, Save All Rentals.

Billboard/Outdoor, other—gold, Fastway Rent-to-Own; silver, Action Rent-To-Own.

Continuing education

This year's educational seminars attracted big crowds, with participation strong each of the two days.

APRO Director of Education Shelley Martinek said selections for this year's program were extremely popular and well-received.

"APRO is always on the cutting edge of RTO education, bringing you seminars on the most important and current issues in our industry."

Core topics for 1993 ranged from advertising, financing, legal issues, tax and accounting, future of the industry and the like. The seminars were designed to address basic educational interests of APRO members—from experts inside as well as outside the rental-purchase industry.

High attendance numbers for programs on Sunday, Aug. 15, included: Creating a Customer-Friendly



Flying Elvi put on a stage show after parachuting in at Bally's for APRO members.

Environment, 65; New Products in RTO, 52; Planning Your Corporate Vision, 48; and Motivation, 104. Afternoon classes on Sunday were higher all around with, Collections, 77; Legal Update, 72; and Enhancing Employee Productivity, 52.

Each year the association's education committee reviews the convention to make improvements and

changes in the annual seminars.

Kevin Quinn, APRO's newly elected president, served as chairman of the APRO Education Committee during the last year.

If you have any suggestions or topic ideas for seminars, contact the APRO office at (512)794-0095.

CONTINUED ON PAGE 48

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PROGRESSIVE RENTALS

Attending industry's convention and trade show a valid business expense

What you can write off; what's too risky

SO, YOU ARE THINKING OF ATTENDING A TRADE SHOW, MEETING OR CONVENTION. MAYBE YOU PARTICIPATED IN APRO'S RECORD-SETTING CONVENTION THIS SUMMER AND PLAN TO DO SO AGAIN NEXT YEAR.

IF THE EXPENSE WORRIES YOU—OR EVEN IF IT DOESN'T—WHY NOT ALLOW UNCLE SAM TO PICK UP A PORTION OF THE TAB?

Several years ago, changes in our tax laws eliminated the tax deduction for expenses related to attending conventions, seminars or similar meetings—unless, of course, those expenses are directly connected with a specific trade or business.

Therefore, in regards to the rental-purchase business, the Internal Revenue Service will permit a tax write-off for legitimate convention or meeting-related expenses to industry employees, employers/owners, sole proprietors or partners.

According to our tax law, the deduction of trade show or convention expenses depends solely upon whether there is a sufficient relationship between the rental dealer's trade and his or her attendance at the meeting.

In other words, attendance must benefit or advance the business interests of any taxpayer before a tax deduction can be claimed.

At one time or another, lawmakers have addressed a number of problems created by conventions and the employees who attend them.

For instance, there is a blanket rule which states that there is no tax deduction for travel expenses to a convention or trade show where those expenses are reimbursed by an employer.

But on the other side of the coin, the amount received as reimbursement is not included in the employee's gross income.

And the travel expenses incurred by an

employee attending a convention are not automatically tax deductible.

Most importantly, in order to receive a tax deduction, the trade show or convention must be primarily for business reasons, and there are a number of ways to determine if this is the case.

First of all, compare the amount of time devoted to business at the convention with the amount of time devoted to recreational and social activities.

The location of the convention is also important. Is it held at a resort or a hotel? And determine the attitude of the employer holding the meeting. Is the convention held as an award or bonus for employees or is it primarily for training purposes?

Finally, recognize the people invited to the convention. Has the company sponsored the meeting primarily for its own employees or are others invited?

If the trip is primarily one for pleasure and the employer has paid the employee's expenses, the employee must report the payment received as additional compensation.

Expenses incurred by attending meetings, trade shows or conventions at resort areas will not automatically be disallowed. But it must be clearly shown that the expenses were incurred for business purposes.

This brings up the question faced by many rental-purchase dealers. What if the

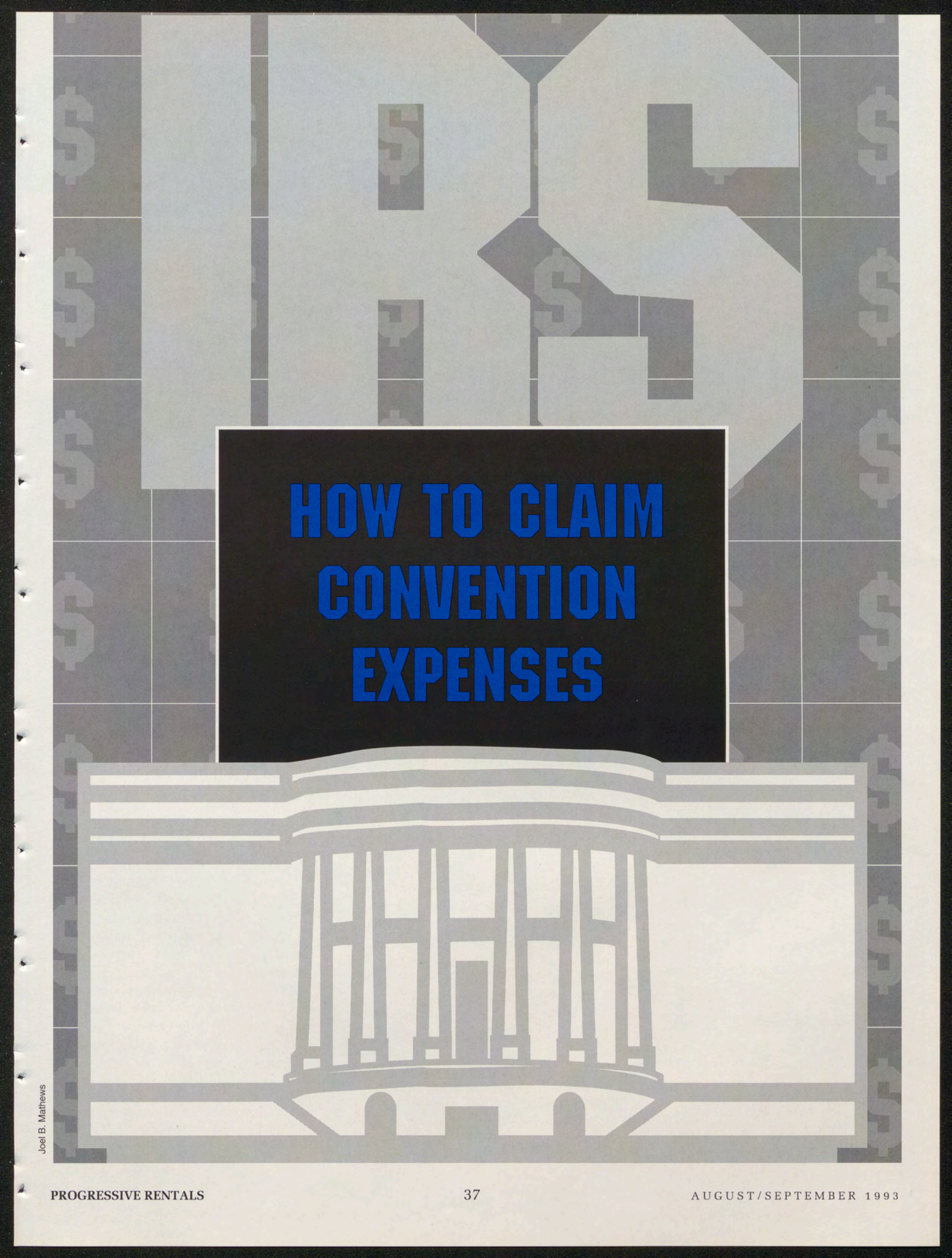
CONTINUED ON PAGE 38

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BY

MARK E.

BATTERSBY



HOW TO CLAIM CONVENTION EXPENSES

Joel B. Matthews

Quality RTO Reading

Network News brings you information on legislative and legal developments impacting the rental-purchase industry. The News' sister publication, *Progressive Rentals*, is a full-color magazine offering more in-depth articles on industry issues and profiles on the entrepreneurs—both past and present—who help make the RTO business interesting.

APRO members receive *Progressive Rentals* automatically as a benefit of their membership. If you are interested in joining the national trade association for the rental-purchase industry, and want to reap the full benefits of membership, call the APRO offices at (512)794-0095. If you only want to receive *Progressive Rentals*, simply fill out, photocopy and return the subscription form below to:

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6300 Bridgepoint Parkway, #305
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Yes, I would like a subscription to APRO's bimonthly magazine, *Progressive Rentals*. Enclosed is my \$30 for the next six issues.

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Phone () _____

Company _____

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City _____

State _____ Zip _____

NOTE: Please pay by check or (circle) Visa/MasterCard or AmEx.



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Continued from page 36

convention trip combines business and pleasure?

When a rental dealer takes any trip within the United States that is primarily for business and engages in some personal activity such as sight-seeing, visiting friends, etc., travel expenses to and from the destination are tax deductible. However, if the purpose of the trip is primarily personal, the travel expenses to and from the destination are non-deductible.

Fortunately, regardless of whether the convention trip—or any trip—is business or pleasure, any local expenses incurred at convention directly related to the RTO business are tax deductible.

The bottom line is that whether a trip is made for business or personal reasons depends on individual facts and circumstances.

The amount of time during the trip spent on personal activity as compared to the time spent on activities directly related to the trade show or meeting is important in determining if the trip is primarily personal.

For example, if the rental dealer spends one week at a trade show relating to his/her RTO business and an additional five weeks for vacation or personal activities, the trip will be considered primarily personal.

And if a rental dealer's spouse or other family member accompanies him or her to a convention, the expenses of the spouse are not tax deductible unless that person's presence is business related.

In one situation, a closely held family janitorial-supply corporation was able to deduct the travel expenses of the president's wife simply because she was trained in treating the president's diabetic condition, which served as a business purpose to that corporation.

However, when a spouse's presence at a convention serves no real business purpose, the non-deductible amount is generally the difference between the total expense and what it would have been if the dealer had taken the trip alone.

Deductible convention expenses include not only the costs of attendance such as registration fees but also

transportation, meals and lodging while away from home as well as local transportation when returning home.

Transportation costs include the cost of fares for travel by air, rail, water, bus, taxi, etc., as well as the cost of renting a car or operating and maintaining one's own car.

In fact, one pilot who used his personal airplane to get to a trade show was entitled to a business-expense deduction for the airplane expenses.

The costs of non-extravagant lodging and meals, including meals eaten alone, are also tax deductible convention expenses. Unfortunately, the full cost of a meal provided as part of a "qualified banquet meeting" was only tax deductible until Jan. 1, 1989, when a 20 percent reduction rule for all other business meal expenses began to apply.

A "qualified meeting" is a convention, seminar, annual meeting or similar business program in which at least 40 individuals attend, and more than 50 percent of the participants are away from home. The food and beverage expenses are part of a program including a speaker, and are not separately stated.

Generally, no tax deduction is allowed for the expenses incurred for attending a convention, trade show, seminar or meeting held outside North America or Jamaica.

However, an exception is permitted if the rental dealer can establish that the meeting is directly related to the active conduct of trade or business, and after taking certain factors into account such as it is "as reasonable" for the meeting to be held outside the North American area as within.

Uncle Sam will, reluctantly, help underwrite the expense of attending trade shows, conventions or seminars. However, to enjoy this financial aid, the rules must be followed and records, especially receipts, kept.

Remember: Congress has been asked to change many tax rules including the one governing "entertainment" expenses. So deduct now and keep an eye on any changes.

PR

Mark E. Battersby is an Ardmore, Pa.-based financial and tax consultant who writes columns and feature-length articles for a number of business publications.

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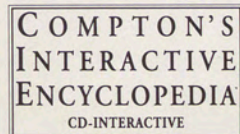
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Of Evil, and *Zelda™: The Wand Of Gamelon*, the world of Compact Disc-Interactive is more

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Hire a customer

ON A WALL BEHIND A BIG WALNUT DESK IN CHICAGO, THERE'S A PLAQUE THAT READS: "MARKETING IS WHAT YOU DO THAT PROVIDES EMPLOYMENT FOR 811 OF THOSE PEOPLE WHO DON'T KNOW WHAT IT IS THAT YOU DO."

•••••

And a Wal-Mart executive interviewed by the *Wall Street Journal* once claimed that marketing consists of nothing more than "making sure Mrs. Jones' refrigerator doesn't fall off the dock before it gets to her." It should be so simple.

Any regular *Progressive Rentals* (PR) reader will know that marketing in the rental business these days is a bit more complicated than just opening the doors and getting out of the way. If you don't believe this, think about all those rental dealers who spend 8 percent of their money advertising for people with bad credit and then 25 percent paying other people to go repossess what they sell them.

This is marketing in the same sense that Woody Woodpecker is a carpenter.

If you're thinking about expanding or even starting up a marketing department in your rental company, this column offers valuable tips on how you can cut costs, increase productivity, and also keep from being too miffed about that big dues increase (the postage deal wasn't our fault).

Say you've managed to bump along all these years, doing things yourself, and now those 15 stores are big enough and healthy enough that you have to find some way to spend some of the profit. And you and the family want more time at that new ski lodge, but you want to make sure somebody's back home tending the business and growing the BOR.

If this is you, it's obvious that your company is suffering the effects of not having a professional marketing department. Before things get any worse, you should think about hiring somebody.

Don't be fooled by so-called experts com-

ing in with fancy degrees and lots of experience. After all, isn't experience what got you into this fix in the first place? And what good's a degree if the kid's never delivered a used refrigerator or repossessed a color TV? They don't teach those things at Harvard Business School. No sir. Those are the valuable skills one can only pick up out there on the streets with the rest of the former shop students.

If you've read any of those neat marketing magazines, you'll know that the best person to head up your marketing effort is the one who can understand the disappointment of not getting the new furniture you ordered on the day it was promised. It's the person who'll know how low-income workers think, and where they live and what they watch on TV. It has to be somebody who wants the best service in the world at the lowest possible cost, the kind customers will pay an arm and a leg for (or maybe just an arm, if you're in one of those regulated states).

That's not all.

Your new marketing guru also has to be the one who can retrain all those account managers and store managers who've been used to doing things their way. Create new opportunities by opening those locked doors.

In other words, if you really want to make this work, you have to hire a customer. Who else meets all these criteria? Not Harvey Trainee, who went to lunch Thursday and never came back. Not your Cousin Louie, who went to make the bank deposit with the rental clerk and never came back. And certainly not one of those bright-eyed wonders from Whoopee State with the laptop computer and the plan to reinvent business (right after he reinvents unemployment).

Next month, they'll all be working at Wendy's with ol' Harv. No, the person you can trust your business to is the customer.

But you shouldn't view this as some kind of radical plan designed to thwart your retirement or take away junior's college education. This is none of those—it's just reality. After all, the customer's

•••••

BY

BUD HOLLADAY

been running your business for years, he just never got paid for it.

If you doubt this, follow up on that new collection policy you laid out at the last meeting. Odds are, some long-time customer over at the DeadLast Motel & Truck Stop has already explained to your collection manager how that plan really works. At least for him. And who do you think trained the last three managers you hired—that training guy? He's still trying to figure out what happened to Harv and Louie and the rental clerk.

The big advantage of hiring a customer is that you don't have to teach anybody the business. In fact, they'll teach you a few things about the business. While it's true that you might suffer some attendance problems unless you relocate the home office near a busline, those can be more than offset by the potential savings on fringe benefits. You'll find, for example, that folks who've never had insurance or a vacation tend not to make demands when they see others going away for weeks at a time. They'll just figure a relative died. And who needs insurance when you can't even come out on it unless you're sick or dead?

To be sure, things could get dicey for your ad agency if a former customer heads up your marketing department. For starters, they'll have to ditch all that talk about "cross-psychographics," "media reach," and "target marketing" and begin talking about things like orders and deliveries. Those are two areas a customer knows a lot about. Tell a customer that he won't be getting his new TV delivered because of the characteristics of his psychographic profile and your own profile is likely to get a new look.

The good news is that when a former customer is in charge of advertising, the agency can no longer bill you for those \$60 lunches with the marketing department. There aren't enough drive-up windows in town to collect that many receipts.

About the only downside to hiring a customer is the need to rethink the way your stores are stocked and merchandised. For example, an accumulation of last month's pickups can no longer be called a display. The new marketing guy/former customer can't be fooled. He knows what real displays look like because he once rent-

ed from the competition after your manager turned him down. And no more Hawaii trips for the purchasing gal who bought those two thousand AC/DC vacuum cleaners with the little bitty built-in TV screens. The new marketing guy knows that without a VCR, that sweeper's dead in the water.

There are bound to be a few cynics who'll say this plan can't work: no rental customer possesses the savvy or expertise to figure out that a 40 cent increase in average rate across 9,000 BOR results in enough added revenue in a year to produce and deliver a half million four-color fliers. Of course, nobody else at the home office has ever figured this out either, but that's the beauty of this deal—the playing field is now level.

If you're worried that you'll be turning one of the most important segments of the business over to some uneducated and unqualified dolt who won't have your best interest at heart, think about the last two vice presidents you hired. You're still in business. How bad can it be?

Some states even have job training

programs which allow for the reimbursement of wages paid to workers receiving on-the-job training. If too many of your other top executives aren't already in this program, you might look into it. It could be one way of meeting those payroll guidelines imposed by your lender after that bonus deal last year.

Speaking of compensation, the fastest way to lose your new marketing head is to work up one of those convoluted and confusing bonus plans. The best pay plan is one that lets the marketing director grow rich as your BOR grows immense. And if you want to put a lot of product out to people you've never seen before, just put a customer in charge of marketing. It'll happen.

Don't worry. If you think it's dangerous, talk to the guy who put his marketing people in charge of customers. Now *that's* scary. **PR**

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

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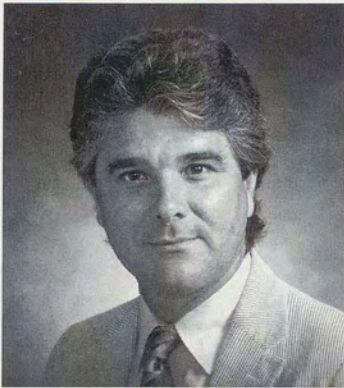
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For their sake, and for the entire industry's ...

Our employees need to know more about RTO

I HEARD RENTAL DEALERS TALKING ABOUT A COMMON PROBLEM IN THE BUSINESS NOT LONG AGO. IT SEEMS THEIR EMPLOYEES, SOME TO MANY OF THEM, MISUNDERSTAND THE BUSINESS THEY ARE IN AND THE COMPANIES THEY ARE WORKING FOR TO SUCH AN EXTENT THAT DEEP DOWN INSIDE THEY BELIEVE THAT THEY ARE CHEATING THEIR CUSTOMERS.

.....

BY
ED WINN III

.....

They are consumers themselves; they have priced low-end, two-head VCRs at Wal-Mart, they see what their rental store is charging, and they conclude that they are in a rip-off business.

The results of this attitude are many and far-reaching.

First of all, they decide to move on as quickly as circumstances allow. That means the company has a "short-timer" on the payroll, who will likely try to get more from the company than he gives to it during the next few weeks or months.

Second, the bad attitude about the business will almost certainly communicate itself to customers. Customers who insist on renting products may be indifferently accommodated, but this employee makes no effort to close a deal because he does not want to be responsible for what in his mind is a rip-off.

Thirdly, this attitude can leach into other previously contented and loyal employ-

ees and soon the whole store is polluted with this attitude. Finally, this employee, who is ashamed of what he is doing, will hold a clipboard up in front of his face or worse if the media comes calling.

And so, what to do? It may sound simplistic to say that management needs to be responsible for ensuring that new hires understand completely the business they have just gotten into. But it needs to be done, carefully and patiently.

Issues of pricing need to be addressed head-on. That may include an explanation of the economics of the business generally, or even an explanation of the store's revenues and expenses. The difference between the cash price and the rental-purchase price is not all profit. Legal aid lawyers do not understand that.

Some employees do not understand it, either. And, finally, the employees are more dangerous to the business. It is a problem that management can solve, but not by ignoring the issue.

We live in an era of increased consumer awareness of the price/value relationship and it is affecting the shape of retailing in this country. The rental-purchase industry cannot afford to ignore this clear trend, and RTO companies cannot afford to have employees who do not understand the relationship in their own store.

If they are educable, these misinformed employees, they need to be educated; if they are not, they need to be given the opportunity to work in a business about which they can be proud.

For their sake and for ours.

PR

Ed Winn is APRO's legal counsel and a veteran writer on RTO issues.

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City _____ State _____ Zip _____

Continued from page 27

to apply the rental money that they are going to pay out of their pockets to the cash value of the property. So when the insurance check comes in we give them the option of keeping the furniture they have rented without having to rent it for 21 months."

Another approach is that of an RTO dealer in Hannibal, Mo., who came up with the idea of giving out coupons to the Red Cross for victims of the flood for free two-week rentals.

Rental dealers were affected all along the path of the flood and responded to each other, fellow merchants and customers locally.

Show Me Rent-to-Own's Gary Romine, president of the Missouri Rental Dealers Association, gave this report: "We have two stores, both of which were not directly affected. However, the customers in the surrounding areas of Crystal City and Arnold, Mo., were. We helped them move and relocate their merchandise to higher ground, as well as provided storage at our own facilities."

Although many dealers managed to limit their losses, others like Randy Olinger and John Thompson in the St. Louis area suffered severely.

Most did not have flood insurance and will look to federal disaster aid for assistance in re-establishing their businesses.

President Clinton visited the flood sites and is proposing \$2.5 billion in emergency funds. Total losses from the flood of '93, upward of \$5 billion, are still being tallied.

In contrast to other domestic disasters, natural and manmade, looting and criminal actions were not in the news. Instead, acts of cooperation and kindness characterized the midwesterners and those who sent relief from all parts of the country.

The National Guard, Red Cross, Salvation Army and other civil organizations played key roles, but RTO dealers and their employees participated quietly and diligently. **PR**

Elizabeth French is a freelance writer who specializes in business and technical subjects. She can be reached at (512)346-8392. Janeen Myers, an Edmond, Okla.-based writer, provided on-site research. Her phone number is (405)348-6714.

Dealers share their opinions on relevant rental-purchase issues

Two new members were elected to the APRO Board of Directors during the annual convention in August. They are the focus of this issue's Dealer Views section. Read on to get a better sense of their thoughts on the industry, the association and their own businesses.

—John Gormley, editor

...

Ernie Lewallen
Co-president
United Household Rentals (six stores)
Cincinnati, Ohio

Role of the association: "I really believe there is a common interest we have to focus on, and it isn't the perspective of Rent-A-Center and it isn't the perspective of a one-store rent-to-own dealer. It's a common interest that gives us all an opportunity to succeed profitably and to continue on with the future."

Assessment of industry: "I see our industry unfolding again as it seemed to do eight or 10 years ago, with a cloud. Some may even perceive it to be a dark cloud hanging over our heads, and I believe if there is going to be a future into the turn of the century, we're going to have to bring some blue skies into our approach."

Wish for the industry: "The authorship of a legislative effort that would not erode the revenues that we currently generate. Every business seems to go through competitive ups and downs depending on the aggressiveness of expansionary types. Sometimes it makes it unprofitable. But in some cases people find new ways to do things that become so unique that they make a very sizable and proportionate profit to their efforts."

"If we are allowed to be dominated by the factors that would undo what

we do, then it really might get to a point where we might win the battle but lose the war because what we're left with simply wouldn't be worth having."

Low profit margins: "I believe it's proprietary information to reveal what our bottom-line percentage is, but I think that you find in most cases, it's a single-digit number across the board in our industry. I think you could make a strong analogy that you might do a better job investing your money in a company away from our industry because ... it isn't a double-digit return. We don't feel that we can be criticized for gouging anyone."

High cost of doing business: "Service and repair, the proper accounts management, the refurbishing, and re-marketing and re-advertising of return products to get a fraction of what the original intention was—it all costs money. Insurance, property taxes, income taxes, upkeep of building and vehicles. It's overwhelming."

Public relations/education: "On the surface, charging \$10 a week for a year-and-a-half for a perceived-value \$250 VCR is usurious. But when you properly explain to someone ... what your cost of recovery is, what your cost of marketing, what your cost of servicing is and what you end up with at the end of the road—they almost always come away with an understanding that you're just another avenue trying to be competitive and trying to fill a void that no one else is going to fill."

On going directly to the people: "If we spend all the money on educating the lawmakers and then in four years the lawmakers change, we may very well have to spend the money again because they only think that they are representing what the majority wants. So if the majority has become accustomed to it, if it has become part of mainstream America, then it goes without saying you don't have to spend the resources continuing to re-support what you accomplished at another time."

Timing more important than ever: "It's a critical time for us. We've got a big industry out there that's sometimes fragmented. This August (at convention) it seemed to be as closely

CONTINUED ON PAGE 46

RTO Managers

Are you worried about your future in the rent to own industry?

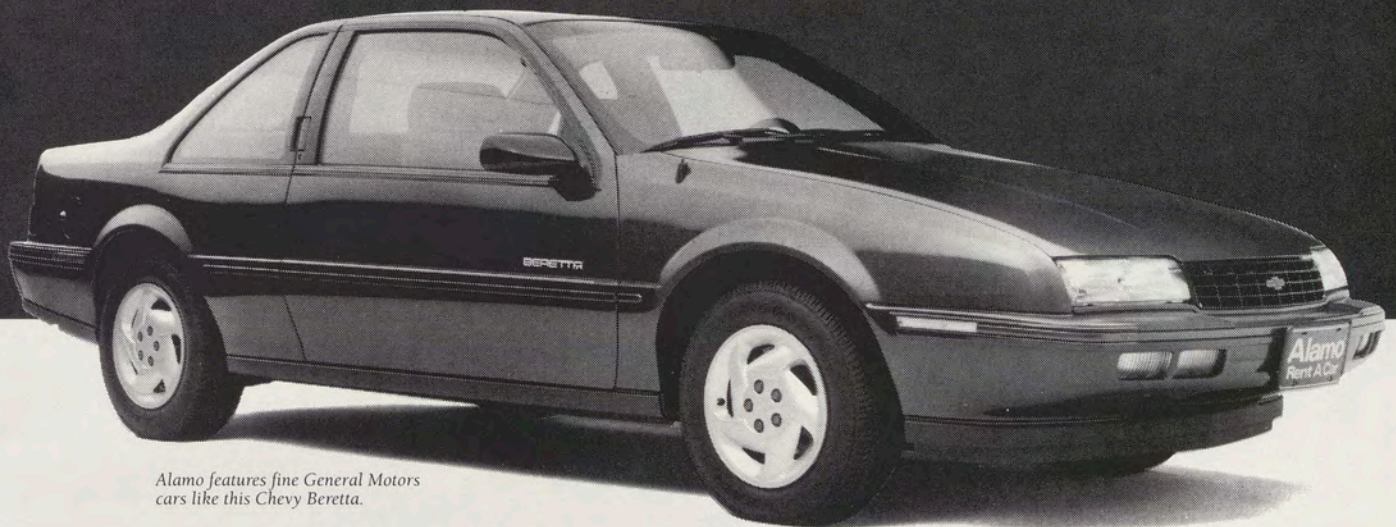


Does your supervisor demand more BOR, but you haven't had any new product in six months? Every company has been affected by the lack of credit availability that is facing our industry. Not National Rentals. 1993 will be another record year for both profits and new growth. Our acquisition department has never been so busy. Good deals are everywhere and the only thing that will slow us down is the lack of quality store management. We are looking for store managers and regional managers who haven't forgotten that the way to financial success is through leadership and hard work. We want people who will have a direct impact on the success of our company. For the right people we offer the best bonus potential in the industry today. If you would like to be a part of our winning organization, you need to talk with us. All replies strictly confidential. Please submit your resume to:

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- Valid for ONE FREE UPGRADE to the next car category, subject to availability at time of rental.
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- (In the U.S.) Valid for ONE FREE WEEKEND DAY on a compact through fullsize car category.
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- A 24-hour advance reservation is required. Reservations are subject to availability at time of booking.
- One certificate per rental accepted; must be presented at the Alamo counter on arrival. Once redeemed, certificate is void.
- This certificate and the car rental pursuant to it are subject to Alamo's conditions at the time of rental. May be redeemed for the basic rate of the Alamo self-drive car rental which does not include taxes and other optional items.
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| | |
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| Legal Reference Index | \$150/\$300 |
| Legal Reference Index '92 Supplement | \$50/\$100 |
| Legal Reference Index '93 Supplement | \$50/\$100 |
| APRO Financial Statement Presentation Guide | \$50/\$100 |
| APRO Tax Audit Manual | \$75/\$150 |
| APRO Industry Profile | \$50/\$100 |
| APRO Business Plan Development Guide | \$50/\$100 |
| APRO Glossary of Terms | \$5/\$10 |
| APRO 1993 Industry Survey (Complimentary to participants) | \$300/\$300 |
| APRO Bankruptcy Manual | \$25/\$75 |
| Skip-Tracer's Guide | \$10/\$30 |
| Collections Manual | \$20/\$75 |
| APRO's Who's Who in Rental-Purchase (Available to members only) | \$25/na |
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Continued from page 44

banded together as I've ever seen it, but you still find dealers that don't belong to the association and dealers that won't support efforts beyond paying dues.

"If I could do anything in my term to be successful, it would be the education of those dealers to make them feel as strongly about being a part of this association as I do."

•••

Norman Slatton Sr.
President/CEO
Buddy Bi-Rite (23 stores)
Tampa, Fla.

On time management: "The business requires a tremendous amount of time—like your financing, marketing and operations planning. Today's competition requires better time management than ever before."

On customer service: "We've got a customer who needs a product and needs service of the product—and uses it. We're trying to make sure we give customers their money's worth. It's what we would want to have in our homes, and what we want them to be proud to have in theirs."

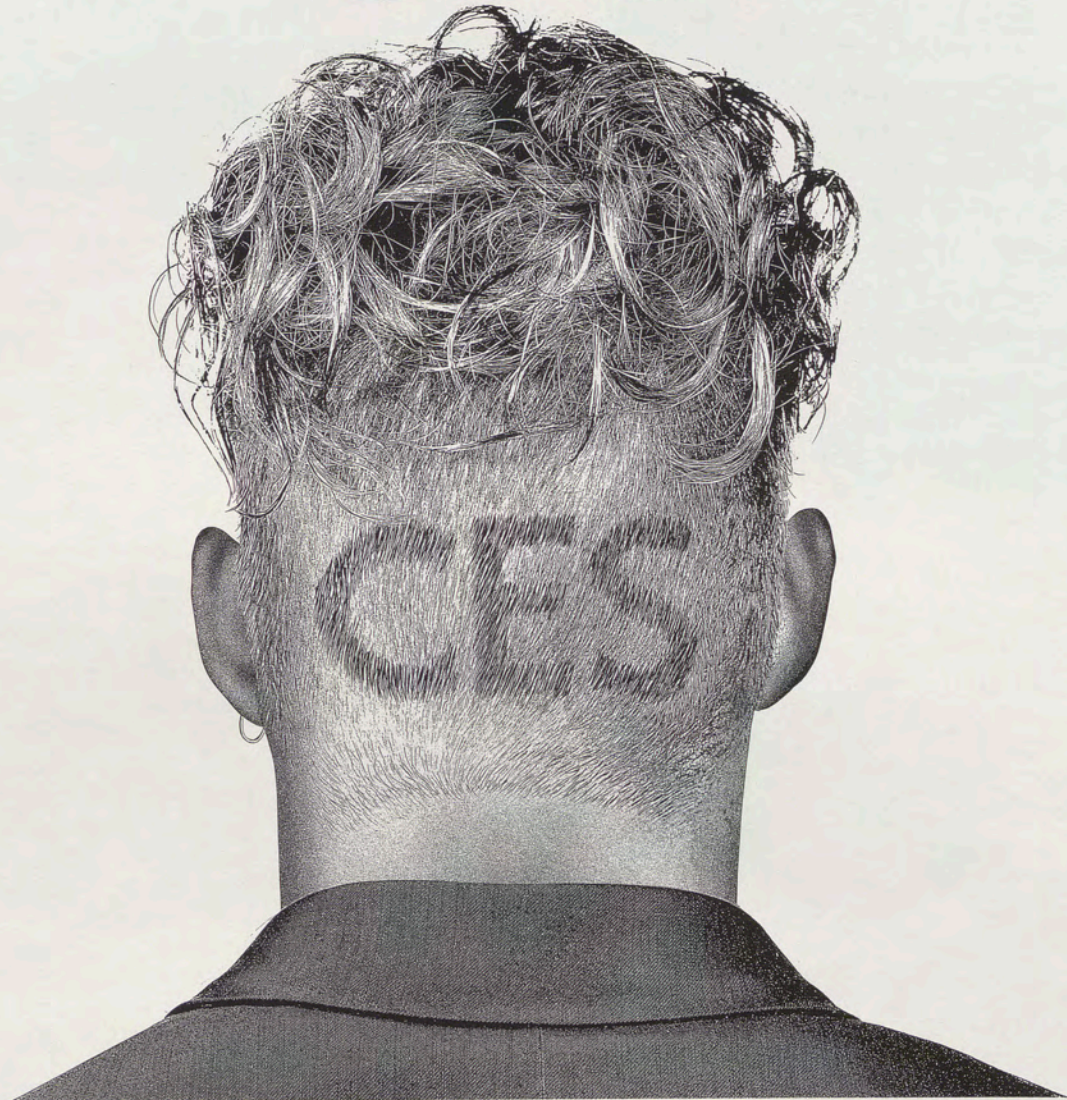
View of the industry: "Our industry is a good industry; it's an exciting industry. The dealers I have met, when I attend APRO conventions, are the most professional people I've been fortunate enough to be around. And I've been in business for 30 years. It's obvious these dealers do not get enough credit. I strongly believe APRO can have a big impact on improving the image of rental dealers."

Good corporate citizens: "I think the rental industry affords an independent dealer or a public company the opportunity to make a reasonable return on investment—and to pay reasonable wages to professional people. It allows people to build a good company as a team over the years, it rewards them with decent wages, and they have a pleasant workplace along the way. There are lots of businesses that don't offer these conditions."

"As dealers, it's our responsibility to communicate the rental-purchase story with our peers, our customers, our employees and our civil servants."

PR

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RIDE THE WAVE!



APRO 1994 IN ORLANDO
AUGUST 3-7

Continued from page 35

Trade show

The sold-out exhibit hall bustled with excitement as more than 186 booth spaces packed the 40,000 square-foot Bally's convention area.

Hart Furniture sponsored the champagne welcome. The show was a tremendous success, according to most exhibitors. And one vendor, Al Zagorniak of Sears, extended a special appreciation to APRO.

"Thank you most sincerely for a great show and a great job. Your professionalism shines," Zagorniak wrote.

In addition, vendors donated prizes in an exhibit-hall raffle to help APRO's federal political action committee effort. Prizes ranged from a General Electric 46-inch projection television set, donated by Thomson Consumer Electronics, to FORESIGHT's baseball signed by Mickey Mantle to \$500 cash, donated by High Touch.

Products for this year's trade show ranged from pagers, home security systems and computers to jewelry and consumer electronics.

First-time exhibitor Patti O'Neill thought the trade show might help her business successfully launch a product line new to RTO—personal designs for bedding sets, futon covers and comforters.

"It's very exciting to work as a supplier to this industry, and I think the APRO trade convention is a good place to start for someone who is trying to break into rent-to-own," said O'Neill.

Furniture and accessories were also popular again this year, filling more than 67 of the 186 total booth spaces sold to exhibitors.

Golf tournament

It was a record-setting year for the fourth annual APRO/Joe Eason Invitational Golf Tournament as more than 160 APRO golfers packed the course in a six-man scramble format.

Held at the Legacy at Green Valley, the tournament began with an 8 a.m. shotgun start. Golfers showed off their skills on the award-winning course designed by architect Arthur Hills.

Green fees were dedicated to the industry's political action committee when paid by personal checks, and golfers had a chance to play an APRO-PAC raffle while on the greens.

Robin Scott

APRO's 1994 convention/trade show—Ride the Wave!—is set for Aug. 3-7 in Orlando.

Here is a look at the winners of the 1993 APRO golf tournament:

First place—Team 9 A. Cliff Quinn, Dan Singh, Jeff Lebakken, David Radcliffe, Gary Johnson and Mike Little. Score 55.8.

Second place—Team 7. Jeff Allen, Tom Sullivan, Don Noble, Dean Sims, Jerry Sagerdahl and Bob Fishman. Score: 56.

Third place—Team 3 A. Danny Bozoff, Dowell Arnette, Mike Walts, Mick Walts, Jerry Robinson and David Johnson. Score: 57.

Fourth place—Team 10. Terry Hepler, Darrell Tissot, Roger Sharp, Karl Hoffman, Ernie Lewallen and Bryan Stark. Score: 57.1.

Fifth place—Team 17 B. Mike Wickman, Steve Culbreath, Ron Davenport, Steve Harvanek, Larry Tinney and Darren Tinney. Score: 57.1.

Closest to the pin. Hole No. 10—Hank Hutchinson. Hole No. 6—Roy May.

Longest drive—Don Noble, hole No. 6.

Straightest drive—Tony Ryan, hole No. 9.

Fewest putts—Team No. 10. Terry Hepler, Darrell Tissot, Roger Sharp, Karl Hoffman, Ernie Lewallen and Bryan Stark.

Most putts—Team 4 A. Dan Quinn, Steve Shamberg, Dick Eichlin, Jimmy Wammock, Danny Wilbanks and Merrill Simon.

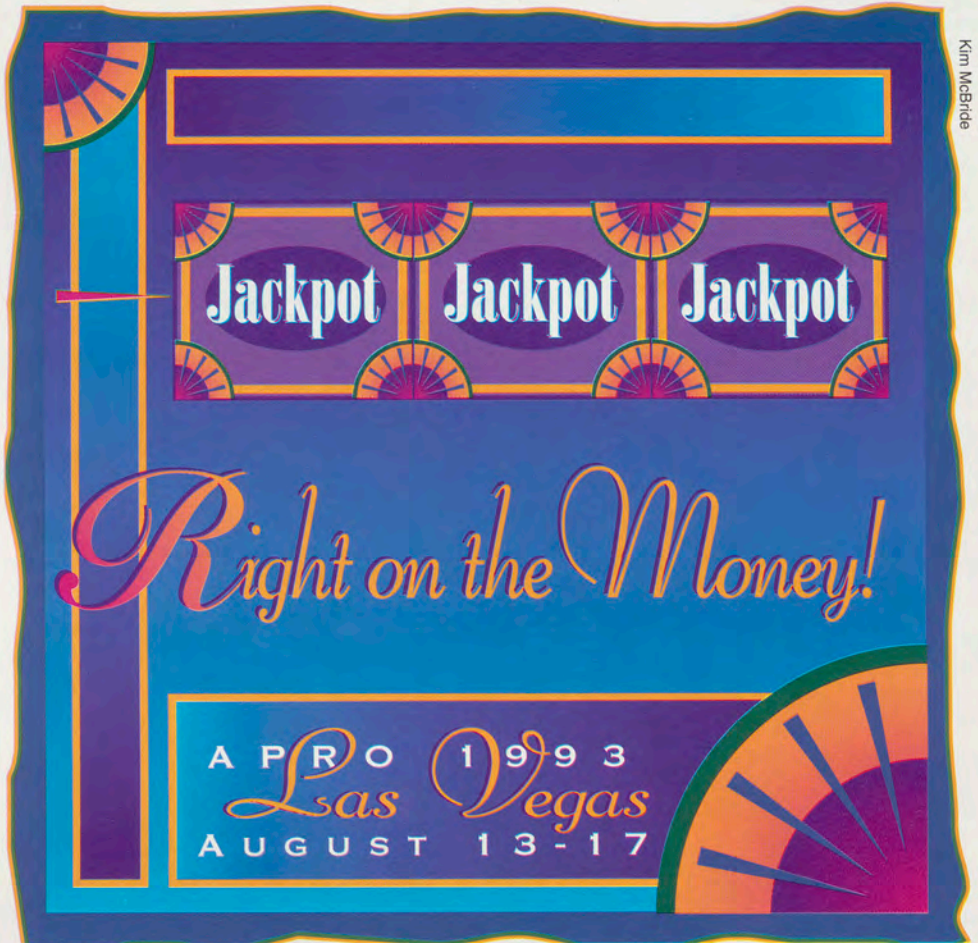
Whirlpool Corporation is the annual sponsor of the industry's golf tournament.

1993-94 APRO officers elected in Las Vegas

APRO's full board traditionally meets on the day after convention ends to elect association officers for the coming year.

This year, the board met on Tuesday, Aug. 17, when Kevin Quinn was elected by his peers on the APRO Board of Directors to serve as chairman of the board and president of the association.

Quinn is president of Puyallup,



Kim McBride

APRO '93: Right on the Money proved true to its name, thanks to a winning turnout.

Looking ahead

The APRO staff is already working diligently to organize next year's convention, APRO '94: Ride the Wave! The 1994 trade show is scheduled for Aug. 3-8 in Orlando at the WALT DISNEY WORLD® Dolphin.

APRO's vendor relations committee was scheduled to meet in Orlando

in late September to go over convention facilities and details for '94.

Further down the line, APRO's 1995 event will be back in Vegas. **PR**

Kelli Montgomery is a University of Texas graduate in magazine journalism. She just completed a summer internship in APRO's communications department.

Wash.-based Quality Rentals. He is an 11-year APRO member, veteran board member, chief fund-raiser and past chairman of the association's education committee. Quinn has also served as president of the Washington state rental dealers' organization.

Here's a look at other members of the 1993-94 APRO Executive Committee:

First vice president. Allen Lewis, Amigo Rentals, Albuquerque, N.M. Lewis was re-elected to this office. Two years ago, he served as the association's treasurer.

Second vice president. Chris Korst, Rent-A-Center, Wichita, Kan. This

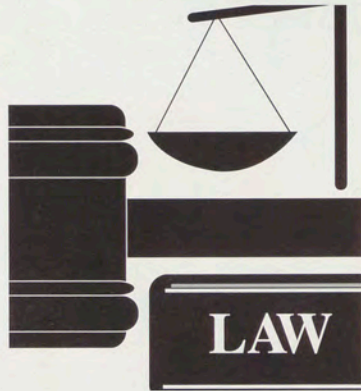
post includes chairmanship of the APRO Publications Committee, as mandated by APRO's bylaws.

Secretary. Bob Simons, All Star Rental, N. Charleston, S.C. Simons was re-elected association secretary.

Treasurer. Ted Wilson, Alrenco, New Albany, Ind. Wilson was also re-elected to the same office. The year before last, 1991-92, he sat on the executive committee as immediate past president.

Past president. Wayne Chambers, CWD Enterprise Two Ltd., Houston. Chambers just finished two consecutive terms as APRO's top officer.

PR



Congressional recess in August was our seventh-inning stretch—now it's time to

Play Ball!

THIS WILL BE THE THIRD IN A SERIES OF COLUMNS DEALING MAINLY WITH THE CURRENT FEDERAL LEGISLATIVE EFFORT.

SOON I HOPE WE CAN TURN OUR ATTENTION TO OTHER ISSUES OF INTEREST, BUT SINCE ONE PURPOSE OF THIS COLUMN IS TO KEEP MEMBERS INFORMED ON THE "BIG PICTURE" IT CONTINUES TO BE A PRIORITY TO UPDATE YOU ABOUT VARIOUS ASPECTS OF CONGRESS AND THE PROSPECT OF FEDERAL LEGISLATION.

• • • • •

Of course, we are all concerned about the recent scrutiny focused on our industry by the U.S. House Banking, Finance and Urban Affairs Committee. At the same time, we can all be proud of the tremendous response from members and the success of our organized counter-offensive on this issue.

In past columns on this issue I have used the analogy of a baseball game. To continue that analogy we would probably be in the seventh inning of the game, where a seventh-inning stretch has been called in the form of an annual congressional August recess.

During this recess members of Congress typically return to their districts to hold group and individual meetings with constituents who were unable to travel to Washington during the spring session.

Congressmen and women use these meetings not only to respond to the specific issues of concern on the minds of various constituents, but also to gauge constituents' likely response to various votes the members have recently cast or expect to cast upon their return to Washington. For instance, in most of our meetings with members of Congress

during the recess, most of them solicited feedback and support for their recent votes for or against President Clinton's budget deficit plan and the upcoming vote they intend to cast on the president's health care reform plan.

This seventh-inning stretch or recess period of Congress has afforded us the opportunity to organize "grassroots" or district meetings with members of the U.S. House Banking Committee and their APRO member/constituents.

Of course, in these meetings dealers have expressed their concerns regarding our industry and the potential direction of the banking committee and its chairman, Henry B. Gonzalez.

During the recess the national association office targeted 16 members of the committee for particular attention, and helped arrange the meetings in those districts. The national association office has also helped several other APRO members who have sought meetings with their elected representatives in Congress.

Meetings were accomplished in nine of the 16 districts before Congress reconvened. All of them responded positively to our concerns and requests of support for fair and balanced rental-purchase legislation should Congress and its banking committee push the issue.

APRO's government relations department will continue to coordinate, arrange and support APRO members in their goals to meet with representatives of Congress now that the session has reconvened. In addition to expressing our concerns about chairman Gonzalez's pending legislation, we are expressing our support for the approach to regulating the industry contained in H.R. 2803 by Rep. Larry LaRocco of Idaho.

This grassroots network we are developing—and putting to good use—is just one component of several we have engaged to counter the current two-front attack on the industry from Congress and the Internal Revenue Service.

• • • • •

BY

RON WATERS

Perhaps the most significant component or entity we have utilized is the federal task force, a small working group of top association officers, staff and consultants.

Perhaps the most significant component or entity we have utilized is the federal task force, a small working group of top association officers, staff and consultants to the association. This task force conferences frequently to coordinate our response to the two-pronged attack on the rental-purchase industry.

This task force was primarily the brainchild of APRO Executive Director Bill Keese and immediate past president Wayne Chambers, who served as chair of the group until the recent election of Kevin Quinn as APRO president. Kevin will now preside over the ad-hoc committee.

I have worked with and for Wayne Chambers for more than four years as he held various positions within the association leadership. I've been impressed with Wayne since the first presentation I watched him make in Atlanta in February of 1989 as treasurer of the old LDIF program. But it was with the formation of the current task force that Wayne really blossomed as a leader. He took charge in a confident but cooperative manner and has inspired great work from all of us involved in this group.

It was this group that laid out the plan of action for us all during the spring seminars held in Palm Springs, and which continues to coordinate the various components of the federal response. The task force was authorized to carry on its work by the APRO Board of Directors and the APRO Executive Committee.

One important component of the federal effort is the fund-raising effort developed to implement the plan of action. The APRO Government Relations Committee developed a budget, and committee chair Chris Korst appointed Kevin Quinn to chair a fund-raising effort.

Quinn utilized various people from the committee as well as the APRO Presidents' Council to actually raise the extra money that will be needed. A special assessment of \$300 per store from every APRO member was estab-

lished as the goal.

We can all feel proud that, so far, this effort has resulted in three-fourths of our goal being achieved with another calendar quarter still to go. It looks like we will achieve 100 percent response from our membership by the end of the year.

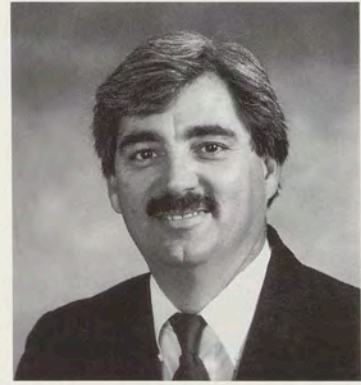
The front lines of this war, the legislative response and legal effort, are being led by a couple of real veterans in their respective fields, John Raffaelli, our Washington lobbyist, and Judge Samuel Sterritt of Vinson & Elkins as our court litigators.

Raffaelli has devised and directs our legislative strategy. It is designed to turn sour lemons into lemonade. Judge Sterritt is a retired U.S. Tax Court Chief Justice and was the judge on the bench during the case being cited by the IRS in its brief as evidence that our transaction is a sale. Obviously, in taking our case, the judge stated his belief that the Internal Revenue Service misinterprets his previous conclusions in that case and will so argue in any court proceedings.

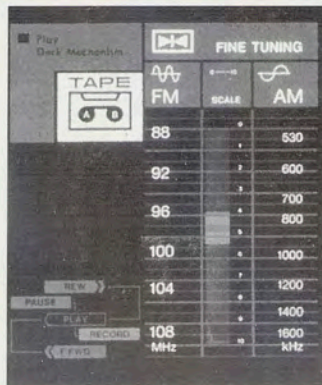
Behind the front lines we have engaged a national public relations firm to devise and implement a plan to improve the image of the industry—in particular, with public policy-makers and consumer protection groups as well as the general public. Although as an industry we have much less education to do with the general public, which already has a generally positive impression of the industry as evidenced by the more than 3 million annual customers who use rental-purchase options each year.

So, as you can see, the wheels are turning and we are doing the job necessary to protect the industry from well-meaning but misguided elected officials as well as self-appointed critics of the industry.

Each of you is to be congratulated on your financial support and active involvement in this great effort. It's my hope that we all remain committed to staying the course until the job is done and the game is over. **PR**



Ron Waters is APRO's director of government affairs.



Wall Street Journal attacks Rent-A-Center

On Wednesday, Sept. 22, the *Wall Street Journal* printed a controversial front-page story on Thorn EMI (Rental Americas), Rent-A-Center, alleging the company was unscrupulous in collection practices and business dealings with the poor.

The front-page main headline read: "How Thorn EMI Profits by Renting to the Poor." The article portrayed Rent-A-Center as a company whose employees use high-pressure tactics with customers that sometimes turn coercive and abusive.

An excerpt from the story: "Employees handling repossessions have been known to bring along members of a feared motorcycle gang as well as to vandalize customer's homes, extract sexual favors from strapped customers and even, in one instance, force a late payer to do involuntary labor."

The *Journal* also indicated that a federal crackdown may be forthcoming, alluding to the possibility that U.S. House Banking Committee Chairman Henry B. Gonzalez, D-Texas, may introduce an immediate bill "that would classify rent-to-own transactions as credit sales."

The article went on to say: "Aside from the lawsuits and the House bill, the Senate is drafting legislation. The Internal Revenue Service is also examining the rent-to-own industry."

In response to the article, APRO issued an immediate alert to its members explain-

ing how the "one-sided" attack on Rent-A-Center, Inc., could carry over into other channels of RTO—with a backlash of local and regional media generating their own stories on the industry.

Additionally, APRO's public relations firm Aker Narsavage Partners issued a same-day press release from Washington, D.C., countering the *Journal's* claims.

It read: "The executive director of the Association of Progressive Rental Organizations said today (Sept. 22) he is extremely disappointed in the manner in which a national business newspaper relied upon a few terminated employees as their only source to infer that their practices are common within the entire rent-to-own industry."

Rent-A-Center's chairman and CEO, Walter E. "Bud" Gates, said the article was mostly concocted from stories of terminated employees, several of whom were dismissed for serious wrongdoing. "That certainly doesn't seem like the way to get an accurate picture of a company."

Gates also said the article was both an insult to his company's customers and employees. "We strive to have an excellent relationship with all of our customers, and they respect us for our commitment to serving their needs."

He concluded: "All of us at Thorn Americas and Rent-A-Center are putting this unfortunate article behind us as quickly as possible, so we can get on with the important business or serving our customers to the best of our ability."

Fashion Craft's new program good as gold

Fashion Craft is introducing a line of gold-plated sterling silver jewelry to rental-purchase stores nationwide. The new package provides dealers with the look of "real" jewelry, but for a fraction of

the cost. Delivered in days, the rings are 10-karat or 14-karat gold with genuine gemstones.

Because the display is not real, there is no temptation to sell the imitation, so there is always a full display to attract customers.

RTO dealers can break into the "good as gold" program for \$1,250. This includes a full line backed by full support. For more information on Fashion Craft's new product, write: The Fashion Craft Corporation, 1824 Johns Drive, Glenview, Ill., 60025. Or, call 1-800-877-7907.

London House offers custom solutions

London House, the leading provider in human resource assessment systems, has recently established a new consulting group, Custom Solutions.

The new business unit assists employers in the development and design of customized programs for assessing quality employees and organizations.

Some of the program's specific capabilities: developing custom selection batteries and structured interview questions, planning and implementing focus group studies, customer satisfaction surveys and organization risk assessments.

For more information, write: Custom Solutions, 9701 W. Higgins Road, Rosemont, Ill., 60018. Or, call (708)292-3477.

Champion promotes Quandt

Tom Quandt has been appointed information systems manager for Champion Rentals in Daytona Beach, Fla. He is responsible for the management of the electronic point-of-rent systems linking the 114 Champion stores with the home file system and all financial systems.

APRO's member programs save money

Here's a look at some of APRO's newest, most

valuable programs that are provided especially for its members:

Overnight package delivery—Through a recently negotiated agreement with American Business Alliance, APRO members will receive up to 30 percent off Federal Express and Airborne Express retail prices. Smaller APRO members can enjoy the same rates as large businesses, even if they use the overnight delivery services only a few times a month.

For more information on American Business Alliance, call 1-800-466-8143.

Group health insurance—APRO members can take advantage of the association-sponsored group major medical, life insurance and optional disability and dental coverages. These coverages are available to all members, their families, employees and employees' families. The program is underwritten by Life Investors Insurance Company of America, rated A+—superior—by A.M. Best, a highly respected statistical and reporting organization.

APRO/Allnet long distance program—As a member of APRO you will be eligible to sign up for discounted long distance rates through Allnet Communication Services, Inc. Allnet, a national carrier, will give 35 percent off its regular rates through the APRO program. This translates to less than 16 cents a minute—\$0.1559 per minute during business hours and \$0.1247 per minute during non-business hours. This is an exclusive program only for APRO members.

More new programs on the way—As a member of APRO you can expect the list of benefits and services to continually grow. (See page 16 this issue for the latest program designed exclusively for APRO members.)

For more information, call Carolyn Fitzsimmons at APRO—(512)794-0095. **PR**

How to cope with an IRS audit



Joel B. Matthews

BILL DAVIS (NOT HIS REAL NAME) IS AN IMPORTANT MAN WITHIN HIS RENTAL-PURCHASE ORGANIZATION. IT WAS THIS MAN THE INTERNAL REVENUE SERVICE CALLED WHEN IT DECIDED TO AUDIT THE RTO COMPANY, AND IT WAS THIS MAN WHO PREPARED TO DEFEND HIS TAX RETURN.

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Davis didn't rush out to buy a copy of *How to Win Friends and Influence Your Enemies*. He didn't suddenly open a Swiss bank account, and he didn't buy a one-way ticket to Rio. Suffice to say, he didn't panic.

And that's a good tack to take says Dan Strunk, tax partner with Kirkpatrick, Sprecker & Company in Wichita, Kan. When faced with an IRS audit, Strunk says the first step is stay calm. Then contact your tax adviser. He or she should set up a date and time for the initial meeting with the IRS agent. You should also provide your tax adviser with a power of attorney, since the agent won't talk to him or her without it.

"We try to do all audits in our office," says Strunk. "It's not that we have anything to hide. This just lets us keep tabs on what the agent is doing and what he or she is being told. Generally, the agent will want to visit the client's office just to get acquainted."

However, each situation has its own set of circumstances.

"We decided to schedule our initial meeting with the agent at our headquarters," says Davis. "We considered having him meet with us at our CPA's office, but our CPA does not prepare our return, and we thought it might seem odd that we requested a meeting place where

our records were not housed. We thought the agent might suspect we had something to hide."

Nothing to hide? It's a recurring theme in a discussion of the IRS. Perhaps better known as the tax police, its officers pound the beats of corporate and domestic hallways ever vigilant for the slightest infraction. And like good Americans, we know ourselves to be innocent until proven guilty, guilty, GUILTY! The very word conjures up wild images of what may be construed as suspicious, and when dealing with the IRS, suspicious is not an adjective with which you want to be associated.

Thus, income tax returns should be prepared so neatly that they are without question. But in the event they are questioned anyway, what should rental-purchase companies do?

Follow Davis' lead. After finding out his company was going to be audited by the IRS, he established a base of operations and selected a leader. He knew what to expect. He was meticulous in preparing information, and he built a good relationship with the agent.

Davis prepared his company's tax return so he set a ground rule that the agent was to deal with him alone. This

avoided confusion, wasted time and misrepresentation.

Before he arrived, the agent forwarded a document request form detailing the type of documents needed. These included all the accounting records, the income tax return itself, work papers for the return, ledgers and subledgers.

"It was a fairly lengthy and detailed list," recalls Davis. "Basically, everything that went into making up the return."

Davis says he expected the agent to come alone, spend a few days going through the requested material, submit another list of documents that he would like to see (source documents, for instance) then reschedule a visit to go through the new documents.

And that's exactly what happened. The only difference was when the agent requested a tour of the headquarters and one store. But Davis is quick to add that it was no big deal. "We had nothing to hide."

How did the agent react? "He was surprised that we carried so much used merchandise," Davis says. "Until this case, I don't think he had a really good concept of how the RTO industry operates."

CONTINUED ON NEXT PAGE

Tips for the taxable

1. Maintain quality books and records. A good accounting software package may help.
2. Implement sound internal control policies to add credibility and reliability to your accounting results.
3. Make sure that business conducted between your company and its principles or affiliates follows some predetermined code. Interpretation: no sweetheart deals.
4. Fully document all travel and entertainment expenses. This is one area the IRS closely studies.
5. Use an experienced, knowledgeable professional to prepare

your tax return. Make sure he or she is up to date on tax issues unique to the rental-purchase industry.

6. Don't push your preparer to take indefensible positions on your return.
7. Make sure that the tax return can be reconciled with your supporting work papers, schedule, general ledger and subsidiary ledgers.
8. Use terminology in your accounting records that is consistent with your tax treatment of an item.
9. Do not mix business and personal finances and/or expenses.
10. Contact APRO for the latest information and assistance. The APRO Tax Audit Manual is a good place to start.

Community service is customer service

RENTAL-PURCHASE BUSINESS OWNERS IN THE 1990S FIND THEMSELVES DOING MUCH MORE THAN PROVIDING HOUSEHOLD GOODS TO THEIR LOCAL COMMUNITIES.

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Many realize they need to impact their communities not only in economic terms but social as well.

In Steubenville and Bridgeport, Ohio, customers discovered their rental-purchase business has teamed up with their local chapter of the Salvation Army's food and shelter program with great success.

The Salvation Army's food and shelter program is designed to collect and distribute canned foods, blankets, clothes and other necessities while providing temporary shelter for those less fortunate citizens.

Dan Weiss of America Rents, headquartered in Worthington, recently ran a promotion allowing customers who paid one week's rent on a product to receive the next week free. In addition, America Rents would then donate \$10, in the customer's name, to the Salvation Army's food and shelter program.

Displaying banners outside the stores and advertising the promotion on the radio, America Rents raised hundreds of dollars for the program while raising social awareness within the community.

"We wanted to do something for the community," says Weiss. "Our stores are more than profit-making entities; they're also participants in



the community. This promotion made us and our customers feel good. That's what it's about—community service is customer service."

Customers responded positively. Many conveyed their appreciation and willingness to help the organization that, in the past, has helped them. What's more, Salvation Army officials were delighted by the promotion and pleased to participate.

When Weiss and company first brought up the idea, they were not sure who to contact and how to approach the concept.

"We were looking at all of the things happening around us—the natural disasters, the social problems—and wanted to do something about it," recalls Weiss. "After discussing the thousands of charities throughout the region and nation, we felt our impact could best be served locally. We identified several charities and the Salvation Army responded the most positively."

Some charities were not interested in being associated with the rental-purchase business. But that didn't bother Weiss, who understands the misperceptions some people have about "rent-to-own."

Weiss, an APRO member since 1986, is an active participant in the national and state RTO associations. He has been involved in the family owned and operated America Rents since 1985.

At the age of 32, Dan Weiss has learned that business is not just serving customers. It's serving the community, too.

—Richard May

Continued from previous page

Although it can be painstaking, anyone preparing for an audit should review each document the agent requests. Better yet, summarize the data on a schedule that's easy to follow and can be tied back to detailed information.

"As we reviewed our documents," recounts Davis, "we determined if a scheduled summary wouldn't be better for the agent. For example, we went back to our ledger detail and prepared some monthly summary totals that added up to the annual totals."

Before the agent arrived, Davis made a copy of everything as well as a list of the requested documents. When the agent had questions, Davis knew exactly what he had given him. "Because I had reviewed the documents," he adds, "their contents were fresh in my memory."

Davis also didn't drown the agent in paperwork, and Strunk commends this strategy, adding that you shouldn't volunteer information. Give the agent what he asks for only when he asks for it. Resist the urge to throw boxes of records and the agent together in the same room then disappear.

"Don't treat the agent as an immediate adversary," adds Strunk. "Realize that he or she is just there trying to do the job."

It's a general rule in the business world that to get ahead you should make your boss look good; make his or her job easy. That axiom can be applied to its fullest here. By being prompt, honest and, above all, organized, you'll make a good impression on the auditor. Remember, he or she should not have to spend a lot of time with you.

"We weren't falling all over ourselves to be friendly," says Davis. "We simply tried to do a lot of work for the agent. We provided information quickly and clearly."

The results of Davis' audit were just as clear. The agent adjusted a few items on the return and pointed out how the company could do a better job on its corporate minutes and resolutions. When the smoke cleared, the company only owned a couple thousand.

—Susan de Blanc



America Rents in two Ohio markets teams up with local Salvation Army.

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