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February/March 1994

Rentals

The magazine of the rental-purchase industry



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Editor
John Gormley
Associate Editor
John Massey
Executive Editor
Edward L. Winn III
Executive Director
Bill Keese

Columnists
Bud Holladay
Kevin Quinn
Ron Waters
Contributors
Mark E. Battersby
Lawrence Levine
Wayne Outlaw
Barbara Stooksberry
Edward L. Winn III

Director of Marketing (advertising)
Cindy Ganther
Director of Education (circulation)
Shelley Martinek

Printing
Communications Specialists, Inc. (CSI)
CSI Sales Consultant
Vickie Kirkland
Design Consultant
Joel B. Mathews

Editorial and Advertising Offices
6300 Bridgepoint Pkwy., Suite 305
Austin, Texas 78730-5016
(512)794-0095
FAX: (512)794-0097

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APRO

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Progressive Rentals

February/March 1994

The magazine of the rental-purchase industry

Volume 14, Number 1

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48 hours on Capitol Hill

By taking the initiative, rental-purchase dealers, led by the association's government relations committee, are educating our federally elected officials in Washington.

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ON THE COVER: With all the demands they face, it's no wonder RTO dealers sometimes feel as if they're drifting in the unknown. But management tools and experts can help. See Who's Who on page 44.

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News & Products

Shelby champions LaRocco approach in the Senate

THE NATION'S RENTAL-PURCHASE INDUSTRY TOOK A GIANT STEP TOWARD FAIR FEDERAL REGULATION ON JAN. 26, WHEN ALABAMA SEN. RICHARD SHELBY INTRODUCED HIS RENTAL-PURCHASE REFORM ACT OF 1994 TO THE U.S. SENATE'S LEGISLATIVE COUNSEL.

•••••

Shelby's legislation, which at press time in mid-February was soon expected to receive a bill number and be forwarded to the Senate Banking Committee, is companion to Idaho Rep. Larry LaRocco's H.R. 2803.

Both pieces of federal legislation demand strong consumer protections under the law by increasing disclosure requirements, regulating collections and advertising practices and offering penalties for unethical merchants.

The LaRocco and Shelby approaches to rental-purchase legislation protect consumers and also recognize the unique characteristics common to

rental-purchase transactions.

Shelby's proposed legislation is an alternative to an anti-industry bill drawn up by Ohio Sen. Howard Metzenbaum. Metzenbaum's bill assigns harsh and sometimes redundant restrictions on merchants, while proving vague on consumer rights. The bill also tries to reclassify rental-purchase transactions as credit sales.

Shelby served eight years in the Alabama Senate before moving to the U.S. House of Representatives in 1978. The 60-year-old Birmingham native served eight years as a congressman before winning his current U.S. Senate seat in 1987. Shelby has a long and outstanding record of supporting legislation that protects the elderly, children and veterans. Shelby's independent style most recently earned him the 1993 Courageous Vote Award from the National Taxpayers Union.

APRO Government Affairs Director Ron Waters says it is hoped that Sens. Patty Murray (Wash.), Kent Conrad (N.D.) and Jim Sasser (Tenn.), all members of the Senate Banking Committee, will co-sponsor the bill.



U.S. Sen. Richard Shelby, D-Ala.

"We intend to build a broad base of support in the Senate to give us a fire wall of protection against the Metzenbaum attack on the industry," Waters says. "On our latest trip to Washington we had 55 very successful meetings in Congress. There was a good deal of support voiced. We feel we've made a lot of progress, but there's still a lot to be done."

—John Massey

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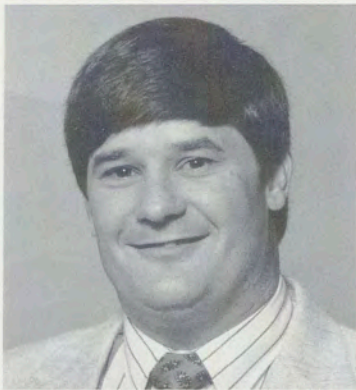
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After reflecting on humble beginnings, I'm eager for

12 more years

WITH FEBRUARY OF '94 HERE, IT IS TIME FOR ME TO REFLECT ON THE PAST. TWELVE YEARS AGO THIS MONTH MY WIFE ANGELA AND I DECIDED TO GET INTO THE RENTAL-PURCHASE BUSINESS, KNOWN THEN AS RENT-TO-OWN. WE OPENED OUR FIRST STORE, THEN 1,800 SQUARE FEET, WHEN OUR OLDEST CHILD, COURTNEY, WAS JUST SIX MONTHS OLD.

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We had the promise of success from our franchiser and the dream of building a business of our own. Within two months I was at my first APRO seminar, listening and talking to the experts and fathers of our industry. I got to know Chuck Sims, Bud Holladay, Barry Gambini and Ed Winn, whose guidance helped serve as building blocks for our company. Our company was an infant and our association was, too.

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BY

KEVIN QUINN

I saw a lot of changes through the next 12 years, many ups and downs and threats to our company, our industry and our association. It is ironic how some things have changed and others have remained consistent. My family's company cannot do business now in 1,800 square feet. It must be bigger. Click tune 19-inch TVs are a thing of the past. Stores do not need a hundred 19-inch TVs to be successful. Today it takes 300 BOR to make money. Bank financing is not impossible to get.

But there are three things that have remained consistent throughout the years:

1. Ed Winn's preaching that if you are not fair and truthful to your customer, you're going to get into trouble; and that rental-purchase dealers are their own worst enemy.
2. APRO is the best learning tool a dealer could have.
3. Hard work and belief in what you

are doing will bring you success and much happiness.

At that seminar in 1982, I remember even then Ed Winn saying, "Tell the customer the truth and don't beat doors down to get your TV, or you are going to get kicked in the ass." The hot legal topic then was whether to put a disclosure on rental agreements. Now it is how to keep Congress from reclassifying us as a credit store.

The sad fact is that Ed is still having to preach about not being too aggressive with customers. We are in the rental business and we are going to lose a few. We cannot have all the laws that protect retailers to protect us, too. On our recent trip to Washington, D.C., Ed said to me, "Rental dealers create many of their own problems." I believe that is still true.

Over the years, APRO has seen a lot of changes, particularly the addition of executive director Bill Keese and a strong APRO staff. We've seen the development of a full-time government affairs department and the increased quality of the publications and information systems. There has been an increase in members from rental dealers and vendors. These are just a few of the changes.

The most significant change has been the transformation of our association from a troubled infancy and weak adolescence to the strong confidence of adulthood. Through all the changes, the one thing that has stayed consistent is that APRO is the voice of the industry and the best tool for learning about the rental-purchase business.

As rental dealers, my wife and I have worked hard to develop a company that is strong and profitable, with the underlying value that we are supplying a service to customers that is second to none. We've gone from owning one store to seven; from no employees to 35; from having a negative cash flow on days that we bought lunch, to not having enough tax deductions. The best of all has been

I hope you will join me in embracing the changes that are inevitable, the support of our industry and our association, and to maintain our values.

seeing my daughters Courtney and Casee, raised around a rental store, grow into beautiful young ladies. Through it all, our values have not changed.

We all have our stories to tell about our years in the business and the changes we've seen. Those stories are a part of the development of who we are today.

So, as we look toward the next 12 years, I hope you will join me in embracing the changes that are inevitable, the support of our industry and our association, and to maintain our values. What we are doing is good. We may lose a few on the way, but that is okay. **PR**

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Rudman completes review of RAC business practices

FORMER U.S. SEN. WARREN B. RUDMAN, WHO CONTRACTED WITH RENT-A-CENTER'S PARENT COMPANY TO DIRECT A THOROUGH REVIEW OF THE NATION'S LARGEST CHAIN OF RENTAL-PURCHASE STORES, ANNOUNCED HIS FINDINGS TO THORN EMI'S BOARD OF DIRECTORS ON FEB. 18, FOLLOWING SEVERAL MONTHS OF INVESTIGATION AND INTERVIEWS.

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Rudman conducted the study at the request of Thorn EMI chairman Sir Colin Southgate, who wanted an impartial review of Rent-A-Center's business activities across the United States. In his report, Rudman concludes that allegations of improper RAC business practices, made in a *Wall Street Journal* article last fall, were either incorrect or misleading.

The investigation included extensive, random interviews of current and former Rent-A-Center customers and employees, conducted by Hoffmann Research Associates. An economic analysis of rental-purchase transactions and RAC's financial performance is being conducted by Lexecon Inc., one of the nation's top economic consulting firms.



Former U.S. Sen. Warren B. Rudman releases his report on Rent-A-Center.

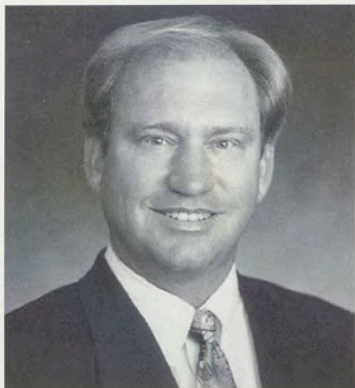
In the Sept. 22 *Journal* article, it was suggested that the rental-purchase chain preyed on the poor and unsophisticated to build "eye-popping" profit margins. Rudman's study, however, shows that customers make well-informed and rational decisions with regard to rental-purchase and that the industry's pricing is reasonable and is based on the costs of the many associated services provided in these transactions.

Through a random survey of current and former customers, the report shows that, despite a few isolated or sporadic violations of company policy, RAC employees take great care in presenting all aspects of rental-purchase transactions to consumers. The investigation concludes that consumers choose rental-purchase transactions for a variety of reasons, citing the unique flexibility of the transactions as the most attractive, unique feature. Consumers without credit are also afforded access to goods that are not made available to them through retail merchants who make cash or credit sales.

The Rudman report states that "consumers would be harmed by elimination of the rent-to-own business." In their questioning of former and current customers, investigators found: 98 percent reported they have been treated with respect; more than 90 percent who were late with payments still consider employees courteous and willing to work with them; more than 58 percent report annual household incomes of at least \$20,000; and 75 percent terminate their rental-purchase agreements before taking ownership for financial reasons or because they no longer want the rented goods.

After reviewing a summary of the Rudman report findings, APRO Executive Director Bill Keese said "it confirms what we always knew about the rental-purchase industry—and what we've been saying all along. The *Wall Street Journal* presented a misleading and inaccurate portrait of both Rent-A-Center and the industry."

—John Massey



Industry facing an ambitious agenda in '94

Quick start keeps APRO staff busy

THIS YEAR HAS STARTED OFF AT A FASTER PACE THAN ANY PREVIOUS YEAR AND HAS KEPT ALL OF US AT APRO EXTREMELY BUSY. AS IS OUR CUSTOM, WE HAVE BEEN ATTENDING THE CONSUMER ELECTRONICS SHOW IN LAS VEGAS, (WHERE WE STAYED AT THE NEW MGM GRAND HOTEL WHERE THE 1995 APRO CONVENTION AND TRADE SHOW WILL BE HELD), THE ATLANTA FURNITURE MARKET, THE SAN FRANCISCO FURNITURE MARKET AND THE TUPELO FURNITURE MARKET IN MISSISSIPPI.

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BY

BILL KEESE

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We have had hospitality suites at each of these markets that have been heavily attended by rental dealers.

We attend these shows for a number of reasons that include meeting with current APRO members to discuss the most recent developments in Congress and the IRS, to recruit new members for the association, and also to sell booth space at our annual trade show. At this point, we are practically sold out of booth space for this year. The exhibit hall this year should be the largest in our history—197 booths.

State associations are having a record number of meetings this early in the year. Many of your board members, plus Ron Waters, Ed Winn, Richard May and myself have been attending these meetings. During one week last month, we participated in three state meetings in one day—in addition to a meeting in

Washington, D.C., which is described in more detail in a brief article that accompanies Ron's column on page 40.

As John Gormley describes in his page-14 article, we had a very successful three-day government relations meeting in Washington, where we had 55 meetings with U.S. Representatives, senators and their staffs to educate them about our position on pending legislation.

Additionally, we have been providing members with increasing amounts of information via our APRO Facts Line. More and more dealers are availing themselves to this method of keeping up with always changing events. If you haven't used the system, please give it a try. Simply call (512)794-0258 and follow the instructions. For legislative, tax and public relations information, you will need your member code number to order documents from these catalogs. From a touch tone phone, you can order and have faxed to you the latest information on events that are affecting your business.

If you haven't already made your plans to attend the mid-year conference in Lake Tahoe, you should do so right away. I was visiting with some dealers recently in Columbia, Mo., where they were asking about the conference. They haven't missed one of these in years and told me they always come back with valuable information that helps them in their business. At this conference, we will discuss the tax and accounting issues, legal issues and task force issues. We will also have Colburn Aker, our public relations specialist, to discuss the industry's public relations needs, as well as how public relations can be used by each dealer to increase business. We are expecting excellent attendance in Lake Tahoe; we hope to see you there.

PR

Mid-year conference in Tahoe offers chance to relax and learn

DEALERS WHO NEED A BREAK FROM THE LONG WINTER, BUT STILL WANT TO STAY ON THE CUTTING EDGE OF THE RENTAL-PURCHASE INDUSTRY WHILE THEY RELAX, SHOULD TAKE PART IN APRO'S MID-YEAR CONFERENCE, MAY 2-4 IN LAKE TAHOE, NEV.

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Over the past few years, many dealers have indicated that they can spare a few days during the spring if the information they receive during the break can really help them run their businesses. APRO's education department has responded to dealer needs by combining several popular industry seminars into a three-day conference at a resort center.

At this year's conference dealers will be able to learn the latest on industry issues while also taking it easy at the world-renowned Harrah's Casino Hotel in Lake Tahoe. Harrah's deluxe guest rooms offer more than 500 square feet of tastefully appointed space, including bay windows for views of Lake Tahoe and the Sierra Nevada mountains. Harrah's is a full-service hotel offering 24-hour room service, a glass dome-covered pool, health club, indoor sun tanning center, seven restaurants, a spacious casino open 24 hours a day, plus big-name entertainment (for coming attractions, call toll-free 1-800-648-3773).

Outdoor recreation available in

the Lake Tahoe area includes fishing, hunting, swimming, horseback riding, golf at championship courses, skiing at world-class resorts, mountain biking, hiking, tennis and river rafting. The first week of May could prove to be good for snow skiing or golfing, depending on the weather.

APRO is offering a hard-hitting lineup of educational seminars, each one developed exclusively for the rental-purchase industry. The topic on Monday, May 2: "Positive Industry Image: Dealing With the Media."

This seminar is aimed at helping rental dealers present a positive image up-front, rather than taking a defensive stance after a media attack. Colburn Aker of APRO's Washington, D.C., public relations firm, Aker Narsavage Partners, will direct the seminar. The seminar will be from 1-5 p.m.

On Tuesday, May 3, APRO's annual legal update will be from 9 a.m. until noon. The legal activities in the rental-purchase industry over the past year will be reviewed by Ed Winn, general counsel for APRO since its inception in 1981.

The morning session will be followed by a complimentary luncheon, sponsored by Whirlpool. Afterward, Wayne Chambers of CWD Enterprise Two Ltd. will update those interested in the accounting aspect of their businesses. A great deal has happened across the nation regarding tax liabilities of rental-purchase businesses, and Chambers will offer advice in that area as well.

The day will end with a social hour in the APRO hospitality suite, sponsored by High Touch from 5-7 p.m.

The conference will wind up on Wednesday with a rental round table from 9 a.m. until noon. This panel discussion will focus on the topic "Rental-Purchase for the 21st Century." Subjects will include alternative transactions, credit sales, life after RTO (what Pennsylvania did) and status of current legislation. Kevin Quinn, APRO president and chairman of the APRO Board of Directors, will serve as moderator.

APRO offers discounted airfare to Lake Tahoe through Delta Airlines. Call 1-800-241-6760 and refer to file #XH0231. For hotel reservations, call Harrah's Lake Tahoe at 1-800-648-3773. When reserving rooms, request the APRO rate of \$92 single/double. To register for the conference, call APRO at 1-800-204-APRO or mail or fax a registration form. To receive a registration form by fax, call APRO's Facts Line at (512)794-0258 and request document No. 4000.

—Shelley Martinek

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BY

LAWRENCE LEVINE

What is subordinated debt?

Subordinated debt comes in all sizes, shapes and forms. Popularized in the 1980s by high-yield or junk bonds, today even small closely held companies can easily access subordinated debt. The popularity of high-yield bonds in the public market made finance professionals realize that privately held companies could benefit as well from this type of financing.

Today the private subordinated-debt market is very sophisticated and its structure is only limited by the creativity of the people involved in structuring the mezzanine loan. Corporate finance professionals simply subordinated debt as an unsecured loan junior to a senior unsecured or secured loan provided by a bank, commercial finance company or insurance company.

Senior secured debt: revolving credit and term loan financing from a bank or commercial finance company.

Graphically, subordinated debt can be depicted in the capital structure of a company.

Unsecured debt:

- Unsecured revolving credit and term loan financing.
 - Trade debt.
 - Accruals.
 - Subordinated debt.
- Equity:
- Preferred stock.
 - Common stock.

In bankruptcy, senior secured obligations are at the top of the hierarchy in terms of repayment. After the senior secured creditors are repaid, the unsecured creditors are next in line to share residual amounts. Unsecured creditors would include trade and accrued creditors.

Also included would be unsecured debt, which is, by definition, subordinated debt. In the situation where a company has unsecured senior debt financing from a financial institution, the subordinated lender would agree to have their claims junior to the senior unsecured lender.

Unlike senior debt, subordinated debt is a debt obligation that contains both debt and equity characteristics. This means that subordinated debt carries a current inter-



Joel B. Matthews

est feature as well as additional yield enhancements that increase the overall returns to the subordinated debt investor.

The yield enhancements typically are in the form of warrants permitting the subordinated debt investor to acquire common stock of the company. Since subordinated debt is unsecured to senior debt and contains both a contractual obligation to pay interest as well as warrants to acquire common stock, subordinated debt can be viewed as equity that carries a coupon.

In contrast with senior lenders, subordinated debt lenders are uncollateralized. Because of subordinated debt's junior position in bankruptcy, subordinated lenders require a higher interest rate as well as a warrant to compensate them for the additional risk they undertake. Therefore, subordinated lenders can bridge the gap that a senior lender is unwilling to fill.

In virtually all instances, subordinated debt that is available to privately held companies will contain the following features:

- It will be unsecured;
- Its repayment terms typically commence between years 3 to 5 with a final payment between years 7 to 9;

- And it will carry a current interest rate and contain a yield enhancement (i.e., warrant) to increase the returns to the subordinated debt investor.

Mezzanine debt can prove to be a particularly appropriate component of a rental-purchase company's capital structure.

Perhaps the biggest drawback rental-purchase companies have in attracting senior-debt financing is that their balance sheets contain few assets that can be collateralized. Even the most profitable rental-purchase companies may find it difficult to attract traditional senior-debt financing.

Subordinated debt lenders, unlike senior secured lenders, do not view a company's collateral as a possible exit option. Therefore, subordinated lenders take the perspective that their subordinated debt investment is solely dependent on a company's ability to generate cash flow over time.

Subordinated debt may prove to be an excellent component of a company's capital structure in instances where a company's financial position can support additional debt but the company's senior lender is unwilling to increase its loan.

Why subordinated debt?

If a rental-purchase company needs additional capital for repurchasing existing stock from a shareholder—or for expansion and acquisition purposes—and the company's senior lender is unwilling to advance all or a significant portion of the funds necessary to complete the transaction, the next logical financing instrument to consider is subordinated debt. If the company's cash flow is anticipated to be sufficient to repay the subordinated debt, it is quite likely subordinated debt can be raised.

It would also be prudent to consider raising subordinated debt before attempting to raise equity, since subordinated debt is less expensive and does not tend to dilute existing owners' interests as much as equity.

Advantages

Subordinated debt is an extremely flexible form of financing. In today's market, subordinated debt can be raised in amounts as low as \$500,000. Mezzanine lenders are very flexible in tailoring their investment to meet the specific needs of the company.

CONTINUED ON NEXT PAGE

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Subordinated-debt investors will typically be more flexible as to the terms of their investment than senior lenders. Subordinated-debt investors are more concerned about their overall yield than a senior lender, who is more concerned about structuring the senior debt to maximize the likelihood of repayment of the debt.

Subordinated debt can be tailored to meet the company's long-term cash-flow needs. As long as subordinated lenders' anticipated yield is satisfied, they can be flexible on amortization of the loan and interest rate.

From a senior lender's perspective, subordinated debt looks like equity. A senior lender will view mezzanine debt as long-term capital, as it is unsecured and subordinated to their loan. As a result, a senior lender will have strengthened its capital position as additional capital has been raised that is junior to their loan. While this final point may be viewed negatively from one perspective, typically subordinated-debt investors will want a seat on the board of directors.

Closely held companies are usually extremely reluctant to yield any control to an outsider. However, a subordinated debt investor can bring fresh insights to a company. Subordinated debt investors are sophisticated financially and have a great deal of experience in developing strategies to maximize the long-term value of a company. It is to all shareholders' advantage to maximize their company's long-term value. Therefore, an outsider with a financial incentive that is based on maximizing the value of his or her investment should add value to all shareholders.

Disadvantages

As valuable as subordinated debt can be in a company's capital structure, there are disadvantages. Subordinated lenders view their role as similar to that of an equity investor. Therefore, they will typically want a seat on the company's board of directors. As already mentioned, owners of closely held companies are extremely reluctant to allow an outsider to share in the power and allow an unrelated party to be in an oversight posi-

Subordinated debt can be tailored to meet the company's long-term cash-flow needs. As long as subordinated lenders' anticipated yield is satisfied, they can be flexible on amortization of the loan and interest rate.

From a senior lender's perspective, subordinated debt looks like equity.

tion. It also means that an owner of a closely held company may not be able to pay above-market salaries to officers, and other perks may be limited. The upshot is the wealth of the existing shareholder should increase even though there is a decrease in their ownership interests—as long as the returns associated with the subordinated-debt investment generate returns in excess of the cost of the subordinated-debt investment.

Another disadvantage of subordinated debt is that it is significantly more expensive than senior debt. Today, the current interest coupon on subordinated debt ranges between 11 percent to 13 percent, essentially double the prime rate. In addition, coupled with the required yield enhancement, typically warrants, these enhancements create an increase in the returns to between 20 percent to 30 percent.

Finally, as discussed above, the subordinated lender will require a seat on the company's board of directors. And while the subordinated lender will not have control of the board, the subordinated lender will have a vote and the ability to take more severe actions if the company does not meet its projections and financially underperforms.

For example, if a company did not achieve its projections or was to incur an event of default, the subordinated lender, under certain situations, could potentially exercise board control or reduce existing management's role.

Key negotiating points

The very nature of subordinated debt and the introduction of another creditor creates a more complex capital structure as well as complicates the negotiations between a senior lender, borrower and subordinated lender. Some may believe that

because subordinated debt is equity with a coupon, and by being junior to senior debt and also unsecured, that the subordinated lender views covenants and remedies and inter-creditor issues to be moot. The very opposite is true.

While subordinated lenders are much more yield-driven than senior lenders, when it comes to documentation they are just as concerned with protecting their investment as senior lenders. In addition, a complicating wrinkle is that it is more difficult for subordinated lenders to exit a privately held company and exercise their warrants to generate their targeted yields.

Therefore, during the course of negotiations, a few issues usually crop up that may be difficult to resolve to each parties' satisfaction. Here's a look:

- Between the subordinated and senior lenders—regarding covenants and inter-creditor issues.

For example, if the company has an event of default, such as a missed interest payment or financial-covenant violation, the senior lender will want the subordinated lender to defer exercising any action for a period of time.

Obviously, the senior lender will desire the subordinated lender to defer its rights and remedies for as long as possible, while the subordinated lender will desire this time period to be as short as possible. Similarly, the senior lender will desire the subordinated lender's covenants be as loose as possible, while the subordinated lender will have the opposite perspective.

- Between the subordinated lender and borrower—regarding the size of the warrant and ability of the subordinated lender to exercise its warrant position.

The borrower will want the subordinated investor to exercise the warrants at a distant point in the future while the subordinated investor will

want to be able to exercise the warrants as quickly as possible to boost its yield.

Complicating the negotiations, when a warrant is exercised a privately held company will likely not have the cash available to pay off the full value of the warrant. Therefore, an agreement will need to be reached to repay this obligation over time.

In addition, determining the value of a privately held company is much more difficult than for a publicly held one. An agreement will need to be reached on determining how to calculate the value of the company in the future.

Finally, should the privately held company go public, the subordinated investor wants the ability to exercise and cash out of its warrants. This also needs to be negotiated.

Which way to go?

Subordinated-debt financing can be viewed in different ways. It can be considered equity with a coupon, or it can be considered an unsecured term loan whose risk characteristics allow it to share in the equity growth of a company.

Because it has both debt and equity characteristics it can be a very useful financing tool and an appropriate component of a company's capital structure. On the other hand, it also carries complications, most often because of the subordinated investor's desire to be considered a partner with the other equity shareholders of the company.

Private subordinated-debt lending has grown dramatically and will continue to grow in importance as senior lenders remain collateral-focused. Subordinated debt is less expensive than raising equity and, in instances where a company's debt capacity can incur additional debt beyond that provided by its senior lender, subordinated debt should prove to be the optimal manner in which to raise additional capital.

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 more than 12 years of corporate finance experience. He can be reached at (312)207-6167.

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The prospect of gaining attention on Capitol Hill may seem intimidating, but APRO representatives couldn't afford to be awestruck when presenting their case Feb. 1-2 to members of Congress in 55 individual meetings.



Photo by John Gornley

Rental-purchase is one of literally thousands of issues the U.S. Congress must address each session.



Photo by John Gornley

APRO Executive Director Bill Keese, left, accompanies Florida's RTO delegation Norman 'Slats' Slatton Sr. of Bi-Rite Co. and Margo Tillotson of Champion on Capitol Hill.

APRO's government relations committee takes a proactive stand with Congress

48 hours on Capitol Hill

FORTY-EIGHT HOURS ON CAPITOL HILL. IN THE CLASSIC FILM *MR. SMITH GOES TO WASHINGTON*, IT TAKES ACTOR JAMES STEWART'S CHARACTER, A NAIVE FRESHMAN U.S. SENATOR, A LITTLE LONGER THAN A MERE TWO DAYS TO LEARN HOW THE UNITED STATES CONGRESS REALLY WORKS.

EARLY THIS YEAR, A GROUP OF RENTAL-PURCHASE DEALERS HAD JUST 48 HOURS TO LEARN THE INS AND OUTS OF CONGRESS.

.....

BY

JOHN GORMLEY

Members of the APRO Government Relations Committee, along with a few others in supporting roles, swarmed Capitol Hill for meetings with their U.S. representatives and senators Feb. 1-2.

"We generated a lot of excitement," says Chris Korst, government relations committee chairman. "We're not out of the woods by any stretch ... but we got a lot of good things done."

Committee members met in the nation's capital, Washington, D.C., on Monday, Jan. 31, to prepare for the following two days of meetings—55 in all—with members of Congress and their staffs.

Major objectives of the Capitol Hill meetings were three-fold:

1. To better educate members of Congress on the rental-purchase issue.
2. To help members of the association's

government relations committee and other participants become better educated on the federal political process.

3. To build support for grassroots communications among other rental-purchase dealers.

The meetings were part of APRO's proactive federal communications strategy. "One of the biggest things to be a building block for this association is understanding that we cannot ignore what's going on around us," says Kevin Quinn, APRO president and owner of Quality Rentals in Puyallup, Wash. "Consistently and always, we must have a presence on Capitol Hill."

Two bills currently in the U.S. House would, if passed into law, regulate the rental-purchase industry—H.R. 2803, by Rep. Larry LaRocco, D-Idaho; and H.R.

CONTINUED ON NEXT PAGE

Continued from previous page

3136, by Rep. Henry B. Gonzalez, D-Texas. Gonzalez's bill, which seeks to re-characterize the RTO transaction as a credit sale, has a companion bill in the Senate, S.R. 1566, by Sen. Howard Metzenbaum, D-Ohio.

Rep. LaRocco's federal bill provides a wide range of consumer protections similar to those in 36 states. It is largely based on model rental-purchase legislation endorsed by the Council of State Governments. At press time in mid-February, a Senate companion bill to LaRocco's H.R. 2803 was expected to be officially entered in Congress by Sen. Richard Shelby, D-Ala.

Within two weeks of the rental-purchase delegation's Feb. 1-2 visit to Washington, total co-sponsors of the LaRocco bill, H.R. 2803, had shot up to 29. At least five new co-sponsors came out of the meetings. Meanwhile, co-sponsors of the Gonzalez bill, H.R. 3136, remained static at 13.

"The consumer is inevitably going to be effected by either one of these

During their two days on the Hill, APRO Government Relations Committee members, acting as constituents, met with members of Congress and congressional staffers to talk about the rental-purchase issue. Some dealers set up their own appointments, but most of the 55 meetings were coordinated through Richard May, APRO's assistant director of government affairs.

ills," says APRO's president, Quinn. "And if one of these approaches would affect consumers adversely—and that's the Gonzalez bill—that's what the member of Congress wants to know."

During their two days on the Hill, APRO Government Relations Committee members, acting as constituents, met with members of Congress and congressional staffers to talk about the rental-purchase issue. Some dealers set up their own appointments, but most of the 55 meetings were coordinated through Richard May, APRO's assistant director of government affairs.

Florida dealer Norman "Slats"

Slatton Sr., an APRO board member who serves on the association's government relations committee, knows the value of constituent contact with Congress.

"You've got a better chance to see them if you're from their state," Slatton believes. "Now, if we can improve on that ..."

Actually, Korst plans to. In late March, the government relations committee will reconvene in the nation's capital for another round of congressional meetings. This time, state association presidents and other interested dealers will join in the process of coordinated, face-to-face congressional meetings. The idea is to provide meeting opportunities for as many constituents from the rental-purchase business as possible. Ideally, a good number will be constituents of House and Senate members on the banking committees, which hold initial jurisdiction over the rental-purchase issue.

"As a constituent, that congressman's going to make time for you in most cases," Quinn says.

John Raffaelli, APRO's lobbyist in Washington, adds this piece of advice on constituent contact: "Make the appointments from their district, so they (congressional staffers) have to call back to their own area code. In every member's district, they will return the calls back to their own district first."

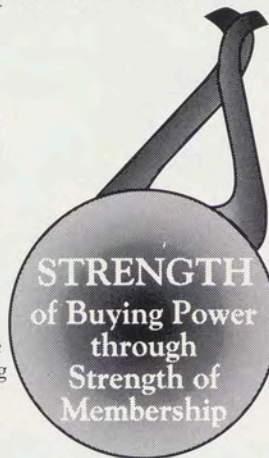
Participants of the February effort gained confidence in their ability to communicate with members of Congress, and most went home resolved to encourage their industry peers to do the same.

"We need to get a lot more people up here (in Washington) doing this kind of thing," says Bill Keese, APRO executive director. "We also need to

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*It's a hot topic these days, so
let's examine it rationally:*

12-to-own

A FEW MONTHS AGO, I CONTRASTED IN MY REGULAR COLUMN IN THIS MAGAZINE THE REMARKABLE FLEXIBILITY AND INGENUITY SHOWN BY AUTOMOBILE LESSORS—24-MONTH TO 60-MONTH LEASES, PAY-IN-ADVANCE LEASES, FORD'S 12-YEAR-GET-A-FREE-CAR LEASE, ETC.—WITH THE UNIMAGINATIVE WORLD OF CONSUMER RENTAL-PURCHASE—18 MONTHS OR 78 WEEKS, OR 18 MONTHS.

Now, a competitor or two begins showing a little imagination and some of the industry responds as if the sky were falling.

The APRO Executive Committee met recently to discuss the advent of the 12-to-own phenomenon in the marketplace. The association's tax and accounting committee met to discuss the same thing. If nothing else, 12-to-own has gotten people talking (muttering may be the better word). This article will attempt to examine the concept as it currently exists and shed some light on the impact of shortening the term in rental-purchase transactions.

First, the concept is not new at all. All rental dealers shorten the rental-ownership term from time to time on used goods. New units typically go out with the traditional 18-month or 78-week ownership term, but as those units come back in and begin showing signs of wear and tear, they go out on shorter and shorter terms.

Rental agreement ownership terms regularly get reduced to 12 months and then, in some cases, down to six months and many terms in between before they are finally purchased, stolen or scrapped in many companies.

The concept is not new for new products. Some dealers have long used shorter rental ownership terms on lower-priced goods to keep the average income per unit at satisfactory levels, either from a business point of view or to stay in compliance with the negative covenants in

lending agreements.

For example, a rental dealer whose lender requires the average income per unit not to fall below \$50 a month cannot rent very many vacuum cleaners at \$20 a month, which the dealer might otherwise be inclined to do (assume \$120 cost times 3 = 360 divided by 18 = \$20 a month). The units might instead be put out at \$30 a month on a 12-month program to maintain the yield at more acceptable levels.

If the concept is not new in the business, then what is the cause of all the hubbub? In a word: marketing. It is a relatively new phenomenon to have big companies emphasizing a 12-month rental-purchase program and it has been disquieting to some dealers who, without giving the matter a great deal of thought, see it as a mechanism to cut prices by 33 percent, which they cannot afford to do.

It is unlikely that any rental-purchase company could, on a long-term basis, slash prices by 33 percent and stay in business. Margins have never been that great, and it is unlikely they ever will be. Nor is it likely that companies, major or otherwise, are intentionally slashing gross margins by a third to capture market share.

What companies appear to be doing is reducing the rental-purchase term, while at the same time raising rental rates somewhat. The net effect on a first-time rental is a 10-to-33-percent reduction in rental-purchase pricing.

.....

BY

ED WINN III

The reasons for developing such a marketing program are not hard to understand. The notion of renting a product and being able to own it sooner sounds cheaper—whether it is or not. It both sounds and actually is quicker, which is usually seen as a good thing by consumers.

It also sounds as if more consumers would be attracted to a shorter program and one might suppose that with a shorter term, more consumers would rent long enough to own. That would mean reduced pick-up costs associated with re-renting product and, finally, the overall overhead of the operation.

Currently, there is little data on a “new and different” customer, now suddenly interested in rental-purchase because of the shorter term. Some companies have posted remarkable BOR growth with 12-month agreements. What is unclear is whether these customers are coming from other rental stores or are new to the rental-purchase concept.

Incidentally, there is at least anecdotal evidence in that the shorter term does not have a significant impact on a company’s “keep rate,” which is the percentage of customers using the transaction to acquire ownership. At first blush, this information seems counter-intuitive until you remember that in most cases customers are keeping products for an average of three to four months.

Most customers are not using the rental-purchase transaction to acquire ownership of the product, but are using the transaction to obtain short-term use of the product. Rental customers spend money with rental companies for a while and then start spending that money somewhere else.

That some consumers spend their money this way infuriates a few consumer advocates, but all of that anger and outrage does not change these spending habits. Apparently, neither does a shorter rental term. As an example, one company with a periodically active 12-month program reports that on 18-month agreements, 80 percent of customers terminate within 90 days. On 12-month agreements, during the same period, 75 percent terminate. Another company reports a keep rate of 21 percent on 18-month agreements and 28 per-

There may be some rental term that is so short that keep rates most certainly jump dramatically. Wherever that term lies, the scant information available indicates that it is not at 12 months.

cent on 12-month agreements for used merchandise.

There may be some rental term that is so short that keep rates most certainly jump dramatically. Wherever that term lies, the scant information available indicates that it is not at 12 months.

This information is a comfort to industry lawyers and others, who are concerned with how rental-purchase transactions are legally characterized. There are certainly dealers out there who treat the rental-purchase transactions as sales. It is not how the industry as a whole treats the transaction, but it is how a few dealers treat it. These rare exceptions run credit checks on their customers, get large down-payments, accept only monthly payments and have few accounts with almost no returns.

Interpretation of a contract legally depends upon the intent of both parties. The language in the agreement is probably the best evidence of that intent. It’s not the only evidence, however. It is also very important what a customer or a rental dealer said about the transaction, although there are some limits on a party’s ability to contradict plain written language to which he or she agreed by signing the document.

Keep rate can also be evidence of intent. Therefore whatever rental-ownership term rental dealers elect to use in their marketing efforts, they must be mindful of the business they presumably want to be. They must realize their marketing materials can be evidence of their contractual intentions over and above what their written agreements might say. For example, advertising which only mentions buying the property and how quick and easy it is to get ownership contrasts with a written agreement insisting that the transaction is a “rental agreement only.” This contrast might well paint a sufficiently confusing portrait of the company’s intent to get the matter before a jury, which means that the company is at risk of

having its transactions re-characterized as sales.

This caution applies to rental dealers regardless of the rental-purchase term attached to their agreements. It is a caution of long standing in the industry and, simply stated, is intended to remind rental dealers of the business they are in. In political terms, “It’s the rental business, stupid.”

There is ever the lure of retail sales for rental dealers, because retail sellers have so many more customers and do so much more business than rental companies. Rental dealers can become retail sellers in the same transactions. They can do it in addition to renting or instead of renting.

What they cannot do is pretend to be rental dealers, while secretly intending to be retail sellers. It is dishonest and is exactly what a few consumer advocates accuse the entire industry of doing. Without flogging a very tired horse, rental dealers need to remember that their advertising can be a factor in the determination of what business they are really in. That notion applies to this business regardless of the rental-purchase term.

Another issue concerning 12-to-own concerns cash flow. Some dealers report that with a 12-month program, units leave inventory sooner than with an 18-month program, forcing them to buy more TVs during a given period of time. A rental dealer who has not carefully modeled what happens to cash flows into the future with a shorter term may be in for some unpleasant surprises.

One company examining the shorter term concluded that over a 36-month period, using certain assumptions such as per-unit life in inventory of 13-to-15 months instead of 20-to-22 months, concluded that it was going to have to buy three TVs on the 12-to-own plan for every two TVs on the 18-month program.

A lot of cash flow calculation depends upon how the company does business, of course, and particularly

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Continued from previous page

upon how the company treats rental returns. If the company shortens the term quickly and consistently below 12 months, then the units are going to leave inventory more quickly, generate less revenue overall per unit, and require cash more quickly for replacement.

But if the company puts rental returns back out on a 12-month program or close to it, many units will not leave inventory any more quickly than on an 18-month program, so the issue of replacement units draining cash from the company may be less.

If the 12-month program is successful and BOR rises quickly, the cash-flow problem can be exacerbated as the store is growing. These considerations must be balanced against whatever cuts in expenses the company can enjoy, if any, from having a 12-month program. But these savings may not come as quickly as the cash demand to replenish inventory—or at all if the store grows a lot. This is a potential cash-flow crunch which dealers must explore fully in their own companies before launching a 12-to-own campaign just to meet the competition.

The consumer marketplace remains a wonderful and confusing world. The rental industry is beginning to show some creative responses to the marketplace in an effort to garner market share, increase profits and otherwise position individual companies more favorably. From an industry point of view, this can only be seen as a good thing, even if individual competitors suffer somewhat from these innovations.

Finally, businesses must be run profitably if they are to be run at all. Therefore, rental companies have a responsibility to think through whatever marketing programs they can create—to make sure that the concepts work financially. Rental dealers also must always be sensitive to the legalities of what they do, since the rental-purchase industry seems destined to remain a legally sensitive industry in the near run.

PR

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

Continued from page 16

get more and more rental dealers involved in the political process back home in their districts."

By mid-February, APRO's federal grassroots program had generated 134 congressional meetings—those in which a rental-purchase dealer or RTO company representative met with a member of Congress or congressional staff.

Face-to-face meetings comprise one key part of grassroots. Another is written communication, in the form of letters and petitions. Since last fall, APRO has helped coordinate a massive letter-writing effort, along with a smaller component—a petitions-and-posters campaign among RTO stores across the country.

Since Congress reconvened Jan. 25, the importance of APRO's overall grassroots push has become more and more apparent.

Charles Cloud, an APRO board and government relations committee member, has seen definite progress. The February trip to Washington was Cloud's second in four months. Cloud, president of Little Rock, Ark.-based Fastway, met with several House and Senate staffers last October.

"The difference was unbelievable," Cloud says. "In October I had to plead, educate and generally felt insecure about the experience. After the heavy-duty grassroots effort the past few months by most of the rental dealers and our customers in February, the reception was tremendous. Each and every meeting was good. The staff people knew the issue and in each and every case stated my argument for me."

Not only did Cloud notice a change in attitudes on the Hill, but also in actions. "The meetings were productive," Cloud believes, "and I have received co-sponsors to the LaRocco bill and commitments from Sens. Bumpers, Pryor and Cochran to support the Shelby bill if it is similar to the LaRocco approach.

"I have no doubt the thousands of petitions, phone calls, and letters from both customers and dealers made the difference," concludes Cloud.

To date, 570 letters to members of Congress and 166 responses have been

recorded in APRO's files. The power of grassroots seems to have created a snowball effect for the rental-purchase industry's goal of reasonable and balanced federal legislation.

"The grassroots effort that we've done back at home—sending letters and having petitions signed—was very well-received," says Rent America's Tracey Morgan, a member of the government relations subcommittee on grassroots. "Several of the legislative aides were particularly pleased to get the petitions because it gave them a reason to go back to the senator or representative and make this a priority issue."

Writing letters and circulating petitions is the easy part. Sitting across the desk from a United States Senator or member of the U.S. House of Representatives, when you get right down to it, can be intimidating.

The key, say those who have already experienced that butterflies-in-the-stomach feeling, is to commit to the task and then "just do it."

Ernie Lewallen, president of United Household Rentals in Cincinnati and member of the APRO board and government relations committee, recalls: "Before the meetings, I was in awe of these people. I quickly found that the members (of Congress) and their staffs are no different from you and me. They were willing to listen, asked good questions, and took notes. Most knew little about our issue and were glad we'd made the long trip to see them."

Lewallen believes the industry is choosing the high road by taking its message to Congress.

"It was good because they saw us as smaller dealers, basically constituents, who have small businesses in their districts coming to them with legitimate concerns."

APRO President Quinn realizes the importance of political activity because he understands a basic law of physics: Wherever there's a vacuum, something will fill it.

For example, the March 31, 1993, congressional oversight hearing on the industry, "Rent to Own: Providing Opportunities or Gouging Consumers?" It took industry officials by surprise. Less than a year before, on June 24, 1992, Rep. LaRocco called a hearing on rental-purchase, only to

Photo by Ernie Lewallen, United Household Rentals



The Washington Monument serves as a familiar icon to citizens, including RTO dealers, visiting Washington, D.C.

find little interest in the subject from his colleagues. At that hearing, testimony from Federal Trade Commission and Federal Trade Board representatives indicated there were no major problems with the rental-purchase industry. But nine months later, Rep. Gonzalez, chair of the U.S. House Banking, Finance and Urban

Affairs Committee, had a knee-jerk reaction to an anti-RTO television report. Legal Aid jumped on the opportunity to bend Gonzalez's ear, and a powerful but misinformed man beat his gavel.

"If we ignore the situation, it will be an important issue to Congress—on the wrong side," Quinn points out. "I can't guarantee that everybody will like politics because personally, if I had my way, I wouldn't be doing this. But we have to. The ostrich that sticks its head in the sand is going to get kicked. It's just going to happen. The fact is it's good for staff and it's good for our members to get more and more knowledgeable about the political process."

By taking the initiative, rental-purchase dealers can help influence the attitudes of key opinion leaders—the U.S. Congress.

"Their level of understanding has been elevated," says Lewallen. "More of our federal representatives probably have a one-sided view of our issue now. And it's our side, because we've been honest and consistent in our communications."

APRO's lobbyist Raffaelli, whose office helped coordinate the February meetings, assesses the experience this way:

"We touched bases with a lot of members of Congress. The constituent touch—another form of grassroots. It puts faces with names, letters, companies. And you've got to do that. It also sends a signal to the other side that we're going to hustle. We are going to walk the halls. You don't want them to think they can catch you off guard."

PR

John Gormley is APRO's director of communications.



Members of the APRO Government Relations Committee met a day early, on Jan. 31, to go over plans for two days of meetings, Feb. 1-2, with officials on Capitol Hill.

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sits at the crossroads of major Florida highways and is ideally situated to allow side trips or vacation extensions.

From humble beginnings

Orlando, the county seat of what was once Mosquito County, was first named Jernigan after the Georgian settler who founded it in 1842. It got its present name from Orlando Reeves, who saved the lives of fellow members of a scouting party by warning of an approaching Indian. Unfortunately, he took an arrow and lost his life. But in appreciation, the town was renamed for him. (Everything has a pay-off.)

By the early 1960s, when Walt Disney was eyeing swampland south of town for a possible theme park on a grand scale, Orlando was enjoying moderate success as a Florida sun spot frequented by appreciative visitors from the north. The railroad had begun bringing tourists in significant numbers in the 1880s.

The next 80 years had its ups and downs, reflecting the economic fortunes of the rest of the country. The advent of Disney, however, brought development of a magnitude that no one could have imagined, except perhaps the incomparable Walt Disney himself.

The Disney style

Disney does fun in a spectacular way and the APRO headquarters hotel, the WALT DISNEY WORLD® Dolphin, does

.....

BY

BARBARA

STOOKSBERRY

luxury even more spectacularly. The Dolphin is a see-it-to-believe-it kind of place, a short walk or tram ride from EPCOT® Center and a Friendship Water Launch ride to Disney-MGM Studios Theme Park. This fabulous 27-story hotel, operated by Sheraton, boasts a 15,000-square-foot lobby and 200,000 square feet of professionally designed meeting space. That includes a 51,000-square-foot exhibit hall for APRO's eagerly anticipated annual trade show.

Choose a room at the Dolphin and be in the heart of everything. From starfish in the carpet to monkeys in the chandeliers, the whole ambiance is one of magic.

Three pools, a swimming grotto and a white-sand beach offer the chance to unwind after a day filled with convention activities, as do the fully equipped health spa, eight lighted tennis courts and five nearby golf courses. Dolphin guests get preferential tee times. The Dolphin also offers supervised activities day and night at Camp Dolphin for children ages 3 to 12.

Eleven on-site restaurants and lounges transport you from Italy to China and points between. For a quick bite, try Tubbi Checkers Buffeteria or Dolphin Fountain and Snack Shop, Harry's Safari Bar and Grille or Coral Cafe, or do it a bit more elegantly at Ristorante Carnevale or Sum Chows. When the sun goes down, music and hors d'oeuvres are the fare at Copa Banana. However you go, it will pleasure your palate.

Outside your hotel

There's WALT DISNEY WORLD® Vacation Kingdom—EPCOT® Center, Disney-MGM Studios, and the MAGIC KINGDOM® Park, plus Pleasure Island and Typhoon Lagoon. The Disney folks are expert at moving people, so scooting from one to another is no problem. A Disney ticket desk is located in the Dolphin lobby.

Since it opened in October 1971, WALT DISNEY WORLD® has entertained visitors by the millions. For pure entertainment, visit the MAGIC KINGDOM® Park and its six "lands," each with its own rides, shows and theme-based shopping and restaurants. Everything is first class and clean, clean. The Disney

CONTINUED ON PAGE 32

RIDE THE WAVE!



APRO 1994 IN ORLANDO
AUGUST 3-7

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Console TV



25" Stereo TV



27" Stereo TV



Portable Stereo/
Cassette Player



20" Stereo TV



25" Stereo Console TV



Hi-Fi VCR

Nipper

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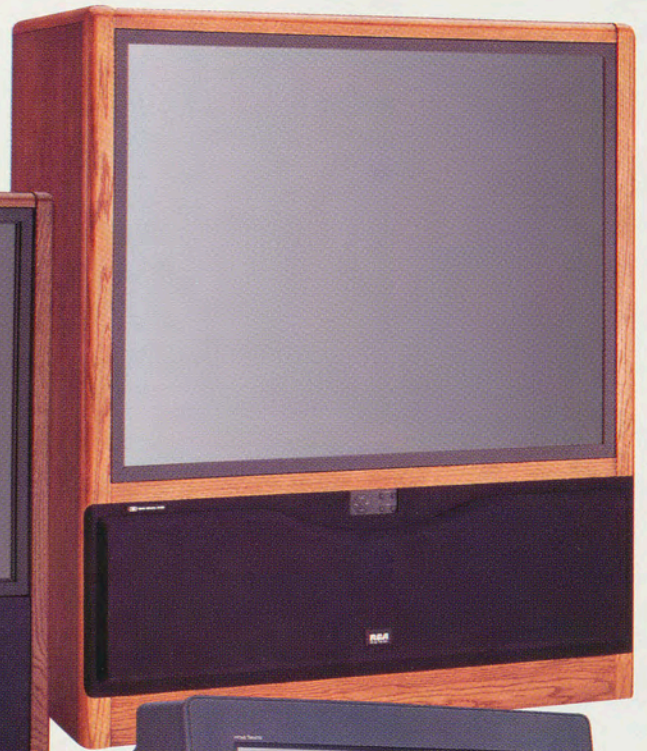
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TV screens are measured diagonally.

Employee, customer surveys yield info that results in better decisions

Adjusting to attitudes

.....
BY
WAYNE
OUTLAW

WHAT PEOPLE FEEL DETERMINES THEIR ACTIONS. THE ACTIONS OF YOUR CUSTOMERS AND EMPLOYEES DETERMINE THE SUCCESS AND PROFITS OF YOUR BUSINESS.

KNOWING THAT CUSTOMERS' AND EMPLOYEES' FEELINGS DETERMINE THEIR ACTIONS, MANAGEMENT IS ABLE TO MAKE MORE INFORMED DECISIONS REGARDING POLICY.

The decisions and actions of managers are critical. They are the life blood of innovation and success—or the seeds of decay and decline.

If business leaders don't know what their customers and employees feel, then they do not have the information needed to run the business. Leaders of many organizations kid themselves into thinking that they can understand the feelings of these two key groups by simply looking or listening; that is important, but it is not enough.

Unfortunately, many times customers who are upset do not complain and some employees who are disgruntled keep quiet. The absence of complaints is not an indication of satisfied or happy customers and employees. Customers may not be comfortable in complaining if they feel it may injure their relationship with the company. Employees may not be candid because they want to keep their jobs and they think complaining may affect their future.

There are many benefits to an attitude survey, whether it is survey of customers or employees. A periodic survey determines key levels of satisfaction within

specific areas. Surveys also help to monitor trends, confirm questions or suspicions and they may also be used to solicit suggestions.

Many times clients are surprised at survey benefits, especially those clients who are using the attitude survey for the first time.

According to Richard Rose of Rent-To-Own/Best-Way, "It is a wonderful tool to work with. Now we are able to address the perceptions that our personnel have and tackle the problems that we become aware of."

Terry Mullins of Rarick's Rent-To-Own reports that the employee survey helps to identify potential problems.

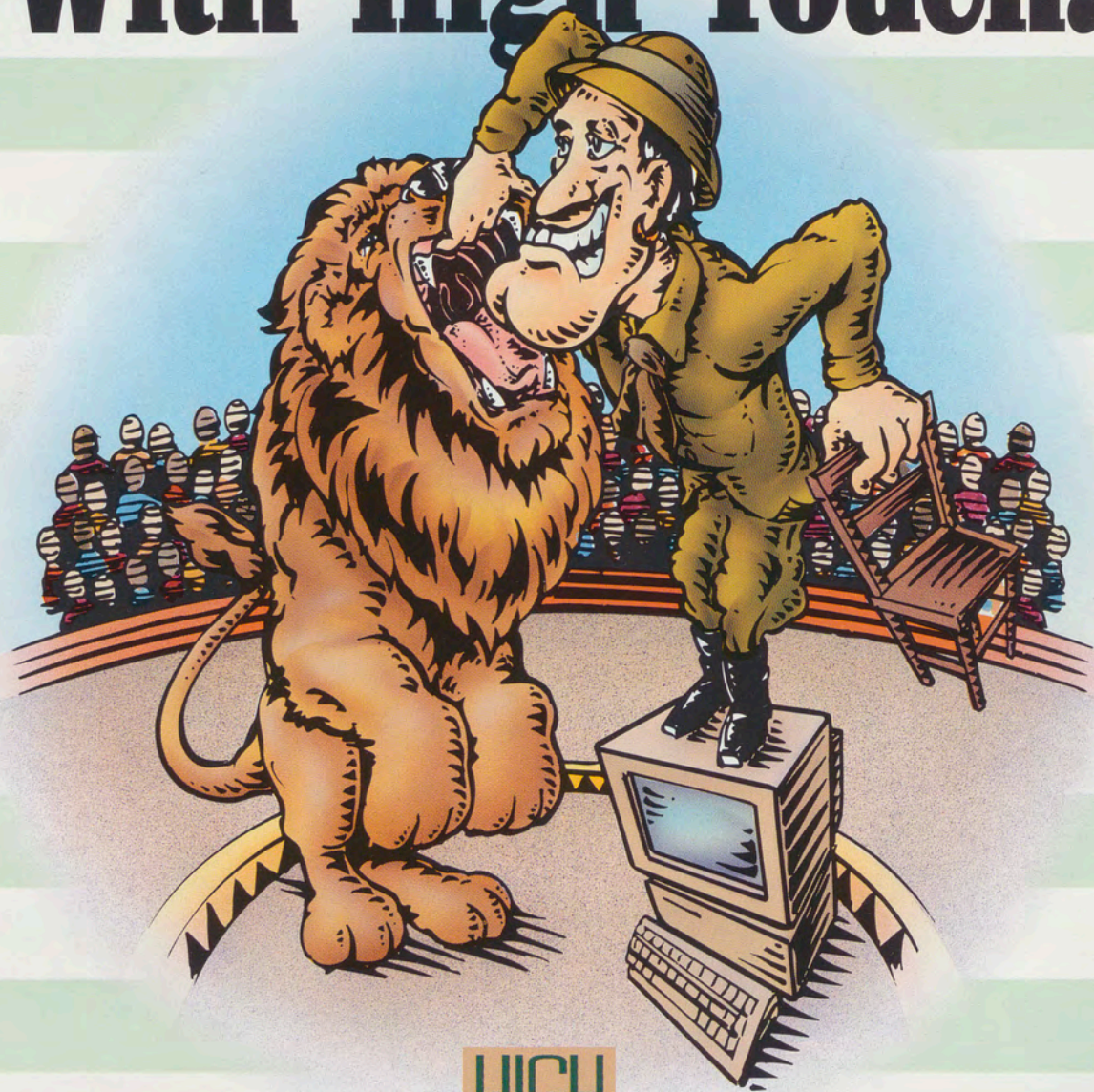
"The employees who deal with the customers every day have a different perspective of the business. Combined with the upper management's perspective, (surveys are) used to ensure that we are delivering the highest level of customer service needed to be successful today," says Mullins.

Information can be obtained that is normally not available to upper management because the survey is conducted by an

CONTINUED ON PAGE 29



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Continued from page 26

impartial outside party. The results of these private surveys may confirm in black and white what owners and managers have suspected. The results may also identify something that comes as a complete surprise. Once the information is quantified, it may provide the catalyst that causes much-needed action.

No company is immune to the consequences of being unaware of problems with customers or employees. It's also important to remember that these problems will not go away if ignored.

The type of information available from attitude surveys is diverse. Areas typically addressed by employee attitude surveys are their feelings about the company, about their job, about their boss and about upper management. In these areas, topics such as goal clarity, planning, measurement, accountability, recognition, communications, human relations, perception of the company, perception of the industry, management effectiveness and business effectiveness can be probed.

Employee attitudes concerning specific areas, such as customer service, products, cost-versus-value and business operations are also examined. These surveys solicit suggestions and information from the employee in almost all areas.

Employee attitude surveys vary in complexity, ranging from a simple questionnaire to an in-depth study. You may conduct your own survey, but you should get an outside party to design the survey and to ensure confidentiality and objectivity. This type of survey typically follows these steps:

- **Identify the need.** Directors of the organization must first determine what they want to achieve. Once the objective is determined, the questions can be asked about what areas need to be probed. This is critical. The survey must fulfill the needs of the company.

- **Create the survey instrument.** By interviewing key managers and determining specific areas of concern, a survey instrument may be created that not only addresses the area of con-

The results of these private surveys may confirm in black and white what owners and managers have suspected. The results may also identify something that comes as a complete surprise. Once the information is quantified, it may provide the catalyst that causes much-needed action.

cern, but also accurately measures response. If the information being obtained is to be accurate and unbiased, then the phrasing and format of the question is critical. Surveys should provide quantifiable answers for the participant to check. These surveys tend to give more accurate information and are easier to interpret.

- **Select the survey group.** Depending on need, you can survey all employees or only selected groups. Typically, certain job titles, locations or tenure levels are surveyed among employees.

- **Survey administration.** It is essential that the employee attitude survey be administered in a way to ensure an atmosphere of openness and confidentiality. If employees suspect that their answers will be made known to their bosses, they will not be candid.

- **Tabulation and analysis.** Many times the completed questionnaires are tabulated by an outside firm. Whoever is responsible for the analysis then reviews the results. This is especially helpful if the organization has experience in analyzing surveys from similar types of companies.

This database of knowledge will allow responses with similar scores to be correctly identified as being either serious concerns or positives.

For example, some employees feel they are not paid well enough. But because this is a common feeling among many employees at many businesses, the strength of the feeling would determine its degree of severity. It may not be a legitimate problem.

- **Developing recommendations.** Based on the tabulated responses and analysis, as well as participants' comments, a recommendation can be made. If the survey is correctly focused, then these recommendations may provide information for future decisions and also uncover new means by which an organization may realize more success.

- **Developing the action plan.** The result of a survey should be action. Knowing a problem exists will not fix it. Top management can develop its own priority list of actions, which will be addressed based on the recommendations.

- **Feedback.** Once the situation is understood and the actions are developed, top management should share this information with direct subordinates. Feedback is then moved down the line until all who have responded to the survey have access to the results.

Customer attitude surveys focus on such key areas as treatment by employees, perception of service, products offered by the company and the levels of satisfaction with the company products or prices. Another key area examined in customer attitude surveys is loyalty.

Xerox Corporation has been surveying customers for many years. Recently, Xerox identified customers who rated service as a "5" were four times more likely to continue doing business compared to customers who rated their service a "4" level.

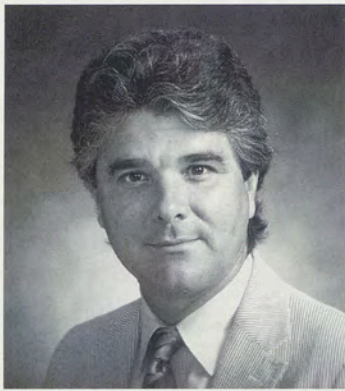
Tracking customer satisfaction and comparing it with customer retention can validate progress in identifying and improving customer service.

A company can create its own customer survey or use an outside source to assist in creating this survey. It is important that customers be surveyed on a regular basis to see changes in satisfaction level. This type of survey typically follows these steps:

- **Identify the need.** The objective of the survey must be identified and the area to be examined must be determined.

- **Determine the survey method.** Most surveys are written. However, they can be conducted over the telephone. How the information is completed and returned to the company is key.

CONTINUED ON PAGE 34



We'd do well to learn from this customer-service example

Actions over words

I HAD AN INTERESTING CONSUMER RETAIL EXPERIENCE THE OTHER DAY THAT MADE ME REFLECT ON THE RENTAL BUSINESS. IT'S WORTH SHARING.

MY WIFE HAS BEEN INSISTING ON SOME HOME IMPROVEMENTS LATELY AND, TO KEEP THE PEACE, I AGREED TO SHOP AROUND FOR A NEW TV TO FIT IN A BOOKCASE. THE 13-YEAR-OLD, 19-INCH SONY, ALTHOUGH IT WORKS PERFECTLY WELL, IS TOO BIG FOR THE SPACE, AND I DECIDED THAT BUYING A NEW TV WAS BETTER THAN REBUILDING THE BOOKCASE.

.....

Armed with a tape measure, I toured the retail electronics marketplace looking for as much TV as I could get in a cabinet that was fewer than 22 inches tall. I discovered that I could get a 25-inch TV, but after shopping three large discount retail shops, including Sam's, I found that only one of Norm Smith's finest Zenith models suited my purposes and fit inside my bookcase.

Circuit City had the best price at roughly \$325. I let myself be stepped up to get picture-in-picture, a decision I might not make again, but it was a bell I thought I wanted at the time, and it may come in handy during March Madness or during next football season.

In any case, I finally made my purchase at about 9:30 on Saturday night. The store had closed at 9, but my sales counselor and I had been lost in conversation about the TV business, generally what is selling, what is not and so on. (That's how we all learn; talking to the front-line troops—our troops, their troops, anybody's troops. They know what's happening in the marketplace.)

I paid cash, they loaded my purchase in the car, and off I went. Twenty-five inch TVs are not all that heavy anymore. By themselves the sets are manageable, but in the box they are unwieldy. I got it into the house alone—my bride doesn't do heavy lifting—and was tired but excited about the new purchase. The first family TV since the twins were born. The kids helped with the unpacking and, in the process, destroyed the box.

Once the package was open, I saw to my infinite dismay, it was the wrong TV. It was a 25-inch Zenith, but it was the wrong model and too tall for the bookcase. Worst of all, it was 10:30 at night and too late for me to call anyone useful to vent my spleen over the ineptitude of everyone involved. I went to bed flummoxed and had nightmares about TVs.

By noon on Sunday, and following a sermon on forgiveness at church, I had recovered my equanimity and called Circuit City to see what kind of response I would get to my predicament. My sales counselor from the night before was soon on the other end of the line. I did not start off yelling, but I was ready to lapse into yell mode if I got less than complete satisfaction. After a couple of brief conversations in between, during which he conferred with the manager—all of this within 30 minutes of my original call—I had the TV I had bought hand-delivered to my door by my sales counselor and two other sales people. The wrong set was carted off and I received a refund of \$50 for my time and trouble.

This was from a company which advertises service from time to time, but which mainly tries to get people in the door by having the best prices in town. This is also a company that does \$2 billion-plus in sales a year, and I begin to see why.

I really got some service. I represent an industry which calls itself a service industry, and I am certain that there are rental companies out there which, after a goof, would perform equally to make sure that they had an entirely satisfied customer. I

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BY

ED WINN III

am also certain that there are others who would not bother. And this is what I have been pondering.

We all know the old saw about how much damage unhappy customers do to a store's reputation and business by simply telling friends and family about what happened to them.

What moved me about this incident was not the fact of the wrong box being pulled late on a Saturday night. That was a mistake, but it did not have to be a fatal one. Rather, what impressed me was the speed and effort that this company's employees put into the correction effort on Sunday afternoon. I was so impressed, in fact, that I am telling all of my friends.

The rental industry ought to be that good, better if possible. Rental companies can no more afford to have angry, dissatisfied customers than Circuit City, even if the odds of rental customers being lawyers with a column in a national trade magazine are less. An angry customer in the rental business, which we all agree is a neighborhood business, can do untold damage in the neighborhood and cost stores a lot of money.

I was prepared to demand my money back and start writing letters to everybody within that organization and outside of it, recalling my bad experience. But there was someone in that store, someone on that front line, who had enough training or common sense to get the bad taste out of my mouth and salvage a positive experience for me with that store.

We all say that we understand that the most important things we have are our customers. How many of us, on a daily basis, through our employees' interactions with those most prized possessions, are able to prove that understanding? We are all correct about that marketplace fact.

Indifference and even antipathy toward rental customers are still around in our business. We will not get the government and its do-gooders off our backs until we perform better as an industry toward all, even unto the least, of our customers.

Besides that, it is just plain how a business ought to be run. There is nothing more important. **PR**

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

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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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Continued from page 23

operation sets the standard for theme parks in smoothness and efficiency of operation.

To maintain the ambiance and keep the magic, most of the operations that keep the MAGIC KINGDOM® Park going happen underground and out of sight of park visitors.

Magic in the kingdom

Enter Main Street USA and step back in time to an America where gas lamps and horse-drawn streetcars clashed with electric lights and horseless carriages. Visit the Penny Arcade, sip sodas on the Town Square, watch artisans etch glassware at the Crystal Arts shop or confectioners make candy at Main Street Confectionery. Music—from strumming banjos to a barbershop quartet—tickles your ears from all directions.

In Adventureland, take the Jungle Cruise through remote waterways of the South Seas, where surprises lurk around every corner. Amid the beating of tribal drums, you'll come to appreciate the expertise of horticulturists who've created a lush jungle of hibiscus, ferns, bougainvillea and other flora. The Pirates of the Caribbean boat ride showcases Disney Audio-Animatronics figures as you join a swashbucklers' raid on a Caribbean village. The walk-through Swiss Family Island Treehouse was inspired by Disney's 1960 film, *Swiss Family Robinson*. Shops in Adventureland offer tropical, pirate and safari-inspired merchandise.

Frontierland takes you to the Old West, where you can ride the runaway mine train down Big Thunder Mountain, enjoy country music at the Country Bear Vacation Hoedown or be entertained by singers, dancers and ventriloquists at the Diamond Horseshoe Jamboree. Tom Sawyer Island is a great place for the kids to run off some excess energy.

Visit Colonial America in Liberty Square. Its Hall of Presidents recalls American presidents and great moments in American history, and the area boasts one of Disney World's neatest attractions, the Haunted Mansion. The ghouls who "live" there number one short of 1,000 and they have a rollicking good time as

you move through the classiest haunted house ever designed, more amused than terrified. Don't leave the area until you see the 150-year-old Liberty Tree, found elsewhere on the Disney property and moved to its present site by a 100-ton crane.

Step into a fairy tale in Fantasyland, whose attractions—Dumbo, the Flying Elephant; Mad Tea Party, Mr. Toad's Wild Ride, Peter Pan's Flight, Snow White's Scary Adventures—were inspired by Disney animated classics. This is the "land" most fascinating to young children. At its center is Cinderella Castle, the towering white structure that epitomizes the Magic Kingdom. This is a very popular part of the park, and lines are often long, so plan to spend the day.

Space Mountain is probably the biggest attraction in Tomorrowland, which also offers a Gran Prix Raceway and simulated trip to outer space. A Skyway connects Tomorrowland with Fantasyland, and the Disney World Railroad circles the park, stopping at Main Street and Frontierland. An electric parade concludes the festivities each night and is a must-see event.

EPCOT® Center

Walt Disney, a man of incredible vision and boundless imagination, looked out at that Florida swamp-land and saw not only a replication of his California theme park, Disneyland, but a "City of Tomorrow." The result of his vision is EPCOT® Center—an Experimental Prototype Community Of Tomorrow. It opened in October 1982 and has fascinated visitors ever since.

Sponsored by major U.S. corporations and by international governments, pavilions of Future World and World Showcase present the nations of today and the technology of tomorrow. World Showcase is a world's fair whose delightful meld of reality and fantasy is a treat to all.

In Future World you get a glimpse of what life might be like a few years down the road, told in a way that both entertains and educates. The World of Motion ride traces transportation history, from invention of the wheel to high velocity travel, and allows you to float over a built-to-scale model of a future city by night.

Wonders of Life offers a journey

through the human immune system in theater simulator vehicles, the experience laced with the touch and know-how of the Disney "imagineers." The energy show in the Universe of Energy takes you to a Middle Eastern desert, the Arctic Sea, a Space Shuttle blast-off, and a North Sea storm, all in the space of 26 minutes.

In The Land, see how the food of the future will be grown hydroponically—in mid-air with no soil—and your visit to the Living Seas pavilion will be unforgettable. Horizons is a view of our lives in the future, Jules Verne style. You can see tomorrow today in Communicore, which allows a glimpse of where technology will take us.

Eleven countries from around the world present their best in the World Showcase. Each pavilion offers architecture, food, flora and merchandise native to its land. What sounds like a boring geography lesson is really geography come alive. With films, rides and displays, each nation showcases its unique character and brings it alive in an enchanting way.

Personnel native to each country enhance the authenticity of experience. You can visit Canada, France, the UK, Morocco, Japan, Italy and more all in one day. Each tries to outdo the other with charming results.

The highlight of it all is Spaceship Earth, the 18-story geodesic dome that dominates EPCOT® Center. Spaceship Earth is presented by AT&T and celebrates the role communication has played in the progress of humankind. Climb aboard a time machine and journey back to the dawn of civilization as the trusted voice of Walter Cronkite traces the development of communication through the ages. You'll end up floating through space into the future in a finale you'll never forget.

But wait ... there's more

Disney isn't through with you yet. Disney-MGM, the newest of the major components, takes you behind the scenes at the movies and recreates some of the magic of cinema. In a replica of Hollywood's famed Chinese Theater, you'll ride through great moments in film history, tour a studio and sound-effects stage, and come face to face with Star Wars characters

on a ride created in conjunction with producer George Lucas.

The Disney World complex also includes Fort Wilderness, a former Seminole hunting ground transformed into a modern-day camp ground. It gives you a chance to return to nature when you've had your fill of man-made animals that sing better than you do. River Country is an old-fashioned swimming hole. Ropes, the inner tubes, slides, even the burgers and hot dogs, all make River Country a great place to cool off.

There are, in fact, entire countries smaller than WALT DISNEY WORLD® Vacation Kingdom.

Best of all, it's just part of what the Orlando area has to offer, albeit a significant part. Ride the wave to APRO's 1994 convention in Lake Buena Vista, Fla., site of the WALT DISNEY WORLD® Dolphin. It's not too soon to plan for the Aug. 3-7 big event. **PR**

Barbara Stooksberry is a freelance writer and editor who has written about APRO's convention destinations since 1989.

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Wade was tired of wasting time and losing money here and there. Heather was especially glad her daddy made the decision to finally take control of his business. Life's too short for hassles. Call Ideal today.

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Continued from page 29

• **Select the survey group.** With customers, the survey is done after the establishment of the initial relationship, after an event such as a service call or on a periodic basis. Random surveying for a portion of your customers on a periodic basis can be especially helpful in finding if your overall level of service is getting better. The key? The sampling must provide accurate information to be analyzed.

• **Create the survey instrument.** It may be necessary to create different surveys for each situation. Questions may have to be phrased differently for a new customer versus questions for a random sampling of current customers. It must be quick and easy to complete, regardless of how it is created or the questions asked.

• **Survey administration.** Surveys must be made easy to administer and retain. Obviously, giving the customer a self-addressed and stamped envelope

will increase your return rate. Customer attitude surveys must be made easy. If it takes time and effort to respond to a survey, the customer can be rewarded for that with offers of free or reduced-price merchandise or free rent for returning the survey. The response rate will increase significantly with rewards.

• **Tabulation and analysis.** With customer surveys, confidentiality is not as important as in employee surveys. These surveys may be done easily in-house. It is important to establish a baseline of information and ensure that this level of service is improving in the entire company. It is also important to identify problem employees and stores so quick action can be taken.

• **Feedback.** The results of the survey should be a regular part of a manager's discussion and evaluation of employee performance. Use these results as a measurement of success.

In recent years, Tom Peters created a culture of MBWA (Management By

Walking Around). This is an excellent philosophy to stay in tune with the organization. However, it is not enough. Many times top managers—even when walking around—do not know what employees are feeling. The feelings of employees determine their actions—affecting how well customers are served and, most importantly, the company's success.

Surveys are especially effective when entering tough times or in times of growth. They also come in handy when top management needs to know what people are really thinking and feeling, thus providing a base for management decisions. Whenever those in top management implement an attitude survey, for employees or customers, the company will see improved results. **PR**

Wayne Outlaw is president of the Outlaw Group, which provides training, consulting and performance development programs. He is a certified professional consultant and can be reached at 1-800-347-9361.

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*In the battle to pass
legislation favorable to the Rental
Purchase industry,*

FORESIGHT *joins fight*

Much has been written and discussed concerning potential federal legislation pertaining to the rental purchase industry.

••••

This legislation, good or bad, will have a far reaching impact on rental dealers.

Many dealers have become involved in legislative efforts by contacting their local representative. Many have also contributed financially to APRO's effort to promote and gain passage of a fair and balanced bill.

In addition to the efforts put forth by rental dealers, some Rental Purchase vendors also feel they have a vested interest in seeing that the best bill is enacted into law.

One such vendor is doing more than standing on the sidelines watching as the rental industry struggles for its right to survive.

This vendor has sought and received support of industry endorsed legislation from its representative on the House side of congress and is presently working to gain equal support from its two Senate representatives.

In addition to direct political

contacts, the vendor also entered into an agreement with APRO to contribute a percentage of all revenue it receives from rental purchase dealers to the national Association. For over a year, monthly contributions have been provided to APRO by this supporter of the Rental Purchase industry.

The vendor, **FORESIGHT** Preferred Customer Clubs, has been providing a valuable product to the industry for almost five years.

FORESIGHT lists among its clients some of the largest and most visible Rental Purchase companies in the country, as well as a large number of smaller operations.

FORESIGHT programs allow the dealer to deliver a greater level of service and benefits to the consumer and in return realize a higher level of profitability.

The relationship **FORESIGHT** programs foster, benefits the consumer, the dealer and unbeknownst to most people until now, it benefits the industry.

FORESIGHT was the first and is the most successful Club provider in the Rental Purchase industry.

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Before spending a bundle on human resources, try these

Training options

"IF YOU DON'T TRAIN YOUR EMPLOYEES, THE CUSTOMER WILL. AND YOU'LL END UP LOSING BOTH OF THEM." IF YOU THINK THAT QUOTE CAME FROM SOME FANCY \$275 SEMINAR, YOU'RE WRONG. THE WORDS WERE COINED BY YOURS TRULY ONLY YESTERDAY, AND THEY ONLY GO TO PROVE THAT ANYBODY CAN SOUND LIKE A TRAINING EXPERT.

ALL IT TAKES IS THE RIGHT CLICHÉ AND A CLEAN FLIP CHART.

.....

In today's business climate, worker training is vital. But it's no secret that some of us would rather sign up for a new religion than listen to another set of audio cassette tapes by the latest training guru.

(A guru is a genius who can't find steady work; once geniuses are employed, they all become vice presidents, explaining why you seldom find a guru with a regular paycheck or a vice president who isn't a genius.) What follows is what they never tell you in those tapes, anyway—the real secrets to employee training.

You should decide first whether you'll train in-house or hire one of those firms that keep sending all the slick brochures. You know, those folders that portray happy employees who don't look anything like the ones you're hiring, all working in what must be Donald Trump's office or possibly the Romanian embassy. Whichever method you choose, there are some important things to remember.

Even in-house training is expensive. If your company is like most, and training sessions last longer than two weeks, you could go through a hundred dollars worth of poster board just keeping organizational charts current. And you always double whatever amount of supplies you think you'll need.

Otherwise, you're likely to run short because people almost always take your training materials with them when they

quit. (Woody Allen once observed that crime is profitable largely because of the low expense in office supplies.)

Early in the process, somebody is bound to argue that your training program won't be complete without colored three-ring binders with the company's name and logo stamped on the cover. But those can cost upwards of five hundred dollars, leaving little or no budget for golf tournaments and fishing trips. Besides, if you have employees who still don't know the name of the company they're working for, it's likely that no amount of training is going to help them. Buy the cheap ones.

Then there's the jelly doughnut factor. Multiply the number of attendees by the cost of jelly doughnuts, times the number of days in your program, and it's easy to see that you can (literally) eat up several hundred dollars just in pastries. Some companies have imposed a two-doughnut limit, but that could make you look like a piker. To maintain your image as a professional outfit, it's probably better just to chop a few days off the end of the program when people have lost interest anyway.

Good training requires good facilities. Some rental companies have spacious training centers complete with product displays, computers and even payment counters. Trainees get to learn the business in a setting that looks exactly like a rental store, except products are new, the carpet's clean, and the guy in charge is there all day. But even if you don't have the resources to build your own, you can still have a first-class operation.

Every company has at least one store that's clinker. Find yours by checking financial statements and BOR figures for all stores open at least 18 months. The nearest money-loser under 600 BOR is the new training center. Since the people who need the most training are already there, it won't take long to make this conversion.

Finding somebody to head up your new training department won't be as difficult as the so-called experts would have you believe. Just go to your nearest store and review its delinquency list. Note the name

.....

BY

BUD HOLLADAY

of every customer who has five units and hasn't made an on-time payment in the last year. Then get these people in for job interviews. After all, they understand the business. They know how to train rental store employees. They like you. What more do you need? One of these people is your new Training Director.

If you choose to hire a consulting firm to train your employees, be prepared to spend a lot of money. But don't expect miracles. Most of these outfits got started when a bunch of people who went to school together got fired after their companies went broke (this explains why they all seem to know each other at conventions). When the unemployment deal ran out, they decided to form a consulting group.

The advantage in hiring professional consultants is that, unlike having some boring corporate trainer hanging around all day, you don't have to spend a whole lot of time with consultants. They'll fly in and spend a few days meeting with your top executives. They'll walk around and look at things and take notes with little gold pens and make important phone calls on cellular phones. You'll notice that all their paperwork is kept in nifty leather bags, just like the kind you see foreign tourists carrying at the airport (except theirs have underwear and fresh fruit inside and not your company's future). You're sure to be impressed.

It helps if you understand the lingo these people use, so let's examine a typical day in the life of a consulting group. When the consultants ("Staff") finish up with the meetings ("Focus Groups"), they go off to an expensive hotel ("Off-Site"). There, they review their notes and make more phone calls, most of which are to people who might help them find real jobs ("Networking"). Later, down in the hotel bar, they all sit around and try to figure out how a dolt like you has managed to stay in business without them ("Analysis").

About Day 4, the consultants come back with a written program, which—according to the blue leather binder—was created just for your company. The bill for \$17,000 was also created just for your company.

Firms like these invariably recom-

mend that you use their training facility, which usually turns out to be a cliffside villa somewhere in the Caribbean. The cost, which just slightly exceeds what we paid for Louisiana, includes meals and those little umbrellas in your drinks. Plus you get to keep the shirt with the fish on the pocket.

But not all training companies operate that way, and some charge considerably less. McTrainers, for instance.

An outfit staffed by former night managers of a major fast food chain, McTrainers comes in Friday afternoon, loads up all your people in a van and takes them down to the local burger joint. They chow down and swap war stories while role-playing with the counter girl and passing out job applications to customers. Then everybody hightails it back to the home office to knock out a few training manuals and some policy books.

All this takes about half a day and you can negotiate the fee. If you carry big-screen TVs, you can trade the fee.

Still, many people argue that training is a waste of time: nobody stays around long enough to use it. You can avoid that problem by hiring only peo-

ple who have worked at your company before. That isn't as farfetched as it might sound.

For example, people who were fired earlier know you're really serious about the guns and drugs policy. No problem. And if they weren't fired, but quit for a better job, you become the beneficiary of all the training paid for by your competition. It doesn't get any better than that.

Rehires also reduce overhead. Imagine how much you'll save on file folders by just pulling the old personnel file instead of creating a whole new one. Because rehires already know your program, they won't have any expectations of high salaries or generous benefits.

After you've replaced everybody with former employees, you'll find that your company requires no training program at all. Then you'll be able to rent and collect with efficiency. Isn't that the whole point of training? **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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Dealers talk market innovation, federal legislation at start of '94

Jimmy Wammock
Owner
Furniture Plus
Birmingham, Ala.

On Atlanta Furniture Market: "The reason we come to Atlanta is because of the selection of quality products, and not the low-end products. We don't buy promotional goods; we go medium and above average. They've got to last, you know?"

"I've been coming here for five years, twice a year. I spend about 10 days a year over here."

"We're doing real well with contemporary furniture and the accessories that go with it. Very seldom will we move just a sofa and love seat. The way we merchandise it, we'll move the whole group with tables and lamps."

On success of the Alabama dealers' association: "We were happy

to get a co-sponsor commitment (for H.R. 2803) from Congressman Jim Bacchus. We worked real hard on that. We also met with Sen. Shelby and are very proud to have him introduce legislation for the industry in the Senate."

On image of the rental-purchase industry: "I haven't had one negative comment from my customers, and I spend a good deal of time with them."

"I'm looking forward to another good year. I was up 14 percent over the prior year, '93. I just try to train people well. Our employee retention has been real good. We mailed out maybe five W-2s out of 18 employees, so for one year we're pretty proud of that."

On business philosophy: "I pay as I go—I don't finance. I do the training and the overseeing, the money juggling and all that. We do a lot

of volume, but we're not big. There's only so much you can handle successfully."

"I've had an offer to let someone come into my store, set up a desk and give me \$20 for every tax return they did. I might as well give them my customer list. I decided against it. I'm real particular about my customers, and I protect them like a tiger."

•••

Richard Bartel
President
Rentown USA
Vancouver, Wash.

On how he sparked his busy holiday season: "We are constantly monitoring customer requests for new products and services. However, monthly survey reports and management input are not always enough. By observing the retail business, interviewing terminating customers and current customers, an owner is more apt to learn."

"During this past seasonal rush, we introduced untraditional items to the rental industry. The introduction of new products, plus the past satisfied customer base, produced record-breaking results."

On popular non-traditional items: "Sega Genesis and Supernintendo machines and games were the biggest success, followed closely by 20-inch bicycles, computers, bread makers and portable CD players. We had some moderately good results with exercise equipment, portable hot tubs, dual-deck VCRs and boom boxes."

On marketing strategy: "We have adopted a new slogan and commitment for our customers. We are a full-service rental company, one that addresses the needs of all family members. An item from mom to dad, from dad to mom, parents to children, and so on. And just as important is to recognize that terms on rental items need to be adjusted periodically to fit the family budget."

On no-cost advertising: "Our extremely successful program was achieved with no additional seasonal advertising expenses. A bold move! One that we had not done in 20 years. We strictly relied on in-store promotions, hoping that our reputation and good service would carry us through."

PR

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Finding the right professional

WHEN A RENTAL-PURCHASE DEALER HAS A MEDICAL PROBLEM, HE OR SHE NORMALLY SEEKS MEDICAL ADVICE. WHY, THEN, DO SO MANY OF THOSE SAME DEALERS SHY AWAY FROM SEEKING ADVICE OR ASSISTANCE IN AREAS THAT ARE IMPORTANT TO THE HEALTH OF THEIR BUSINESSES?

.....

The first step to finding a qualified, competent and affordable professional is to understand what services are needed and how the rental-purchase business will benefit the most. After deciding which services are the most important or the most useful in guiding the operation's growth, it is helpful to know to what extent those services will be needed.

Will the local business climate or

the personality of the dealer make having a lawyer on call a prudent move? Is the business big enough—and complex enough—to warrant a full-time bookkeeper? Or, is assistance in setting up the bookkeeping system and help with the annual income tax returns sufficient?

Accountants and lawyers are among the many types of professionals used by the average rental-purchase dealer. Other professionals who may prove helpful include insurance brokers and bankers. Of course, there are also those business consultants, financial consultants, human resource consultants and the like.

How do I find good help?

A good accountant is the most important outside adviser available to most rental-purchase businesses. The services of a lawyer, insurance broker or business consultant are all vital during specific periods in the



growth of any business or in times of trouble. But it is the accountant who will have the greatest impact on the ultimate success or failure of the business.

As already mentioned, every dealer must decide whether the volume of business warrants a full-time bookkeeper, an outside accounting

service or merely a year-end accounting and income tax preparation service. Remember, however, that even the smallest unincorporated rental-purchase business usually employs an outside public accountant to prepare the operation's financial statements.

Whenever money is borrowed, bankers and other lenders want to see a balance sheet, an operating statement or other financial statements.

CONTINUED ON PAGE 44

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Is your software outdated? Don't let the industry out-run your system.

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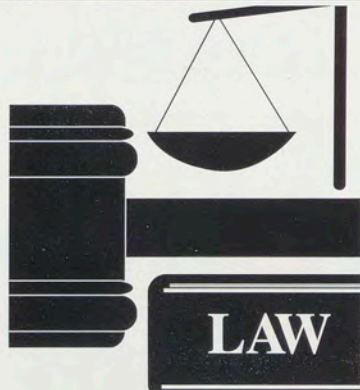


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THERE WILL BE MORE FEDERAL HEARINGS THIS YEAR AND PROBABLY SOME ATTEMPT TO "MARK UP" OR PASS BACK TO THE FULL COMMITTEE SOME SORT OF RENTAL-PURCHASE BILL AROUND APRIL OF THIS YEAR. WE'RE IN CONSTANT CONTACT WITH WASHINGTON, SO WE WILL BE READY.

.....

In the last issue I encouraged you to use the holiday session break to set up meetings with your congressmen or women and senators. I am pleased to report that we know of more than 100 meetings with congressional and senatorial offices regarding the RTO bills pending in Congress. Fifty-five of these face-to-face meetings occurred Feb. 2-3 on Capitol Hill, following a day-long meeting of the APRO Government Relations Committee on Jan. 31 (see related story, page 14).

Most of the response to APRO-member visits was positive; we truly made our presence and concerns known. The best news coming from Washington is that U.S. Sen. Richard Shelby of Alabama (a member of the Senate Banking Committee) has taken the first step to introduce companion legislation to the LaRocco bill, H.R. 2803.

As of our publication deadline we did not yet have a bill number for the Senate version, but you can easily get that information from the APRO Facts Line—(512)794-0258—or office staff. Additional Senate Banking Committee members are expected to co-sponsor the Shelby bill and you are encouraged to urge your two senators to do the same.

During the holidays, I spent time reflecting on our current federal legislative strategy. At issue is the question of whether our primary goal should end at stopping the Gonzalez bill. Or, maybe we should go one step further and actively support passage of the LaRocco bill, which is much better for consumers and still allows for a competitive marketplace.

During last spring's mid-year conference in Palm Springs, we unveiled a federal legislative plan with two goals. The primary goal was to stop any anti-RTO legislation from being enacted into law. The second goal was to actively seek passage of federal legislation that the industry could support. The Gonzalez bill became the focus of the first goal and the LaRocco bill became the focus of the second.

From the beginning there were members of the association and industry who felt our primary goal should be the passage of federal legislation. This view holds that we shouldn't be satisfied with just stopping anti-RTO legislation.

Charles Loudermilk of Aarons Rents was one proponent of this proactive strategy, as well as APRO President Kevin Quinn. Their basic premise: Merely stopping the Gonzalez bill would still leave the industry open to continued legislative attack until the sale-versus-lease issue is settled.

As a result of his experience as chief fund-raiser for the government relations program, president Quinn was especially concerned that, with a year-in-and-year out protracted federal battle, we might lose down the road because of lack of funds. Kevin makes a good point. Any time a chairman of a congressional committee with jurisdiction over our industry—the banking committees—introduces regulatory legislation, we'd be obliged to raise an extra \$500,000 to \$1 million to defend ourselves.

I have always thought it would be enough and a great victory if we could just

.....

BY

RON WATERS

accomplish the primary goal. However, after reflecting on this lately, I've come to the same conclusion. We must finally settle this sale-versus-lease issue. There are plenty of other legislative issues that should concern us, including the usual issues of business taxes, health care, employee rights, workers' compensation, and rental theft laws.

For more than a decade we have been focused on passing first federal and then state laws that finally settle this core issue of sale-versus-lease. And while we never could seem to get anywhere at the federal level, despite some early '80s success in the Republican-controlled U.S. Senate, we have had phenomenal success in the states.

A couple of years ago we decided not to continue pursuit of federal legislation and to focus on quick enactment of legislation in the remaining states. We'd hoped to keep building the body of state law, rendering fed-

eral legislation unnecessary.

Unfortunately for us, those on the other side of this issue (primarily Legal Aid lawyers who grew tired of losing court cases and state legislative battles) decided federal legislation was their only salvation. It didn't help that the chairman of the U.S. House Banking Committee also became interested in RTO and introduced federal legislation himself.

The government relations committee was forced to develop new strategies: Work to defeat the Gonzalez approach, work to see LaRocco's bill passed, or both.

We started with the first goal early last year, which is a common goal for trade associations (and usually the easiest): Oppose the Gonzalez bill as unnecessary federal regulation of an industry that's already regulated by most states.

However, some of our more long-range leaders have expressed concern at being faced with this battle over and



Ron Waters is APRO's director of government affairs.

over each session. As long as anyone dared to introduce anti-RTO legislation it would mean enormous financial cost to us as an association.

Obviously, we don't want raise funds year after year to fight the same issue in Congress. But until passage of a federal law that compliments the body of consumer-oriented state law, our industry remains vulnerable. **PR**

Legal Aid admits it: price controls the issue

On Feb. 16, APRO representatives were scheduled to meet in a negotiating session with those who wish to eliminate the rental-purchase industry through federal legislation.

The meeting was called soon after Alabama U.S. Sen. Richard Shelby announced his plans to introduce companion legislation to Rep. Larry LaRocco's H.R. 2803.

In planning phone calls before the meeting, House Banking Committee staff restricted APRO's group to just three invited association members. The proposed meeting would be a cordial affair, according to meeting planners, where both sides of the issue could work out their problems and maybe settle on some compromise legislation.

APRO and its rental-purchase dealers were represented by government affairs director Ron Waters, Washington lobbyist John Raffaelli and the association's government relations committee chair, Chris Korst. Among those at the "negotiating" session were LaRocco staffer Jan Shinpoch and an aide from Kansas Rep. Dan Glickman's office.

"We walked into the meeting room

and there were at least 20 people in there," reports Waters. "We'd been had. You could see that this wasn't going to be a friendly meeting. It was supposed to be an ambush, but we weren't going to back down. We had made the trip to discuss the issues surrounding this industry and we weren't going to be run off. Besides, we always get something valuable from these meetings."

The cordial meeting turned out to be another platform for Legal Aid's David Ramp. Ramp has had a long-standing grudge against the rental-purchase industry ever since he created a class-action lawsuit against Rent-A-Center in Minneapolis and was whipped in court. According to the APRO representatives, Ramp's highly emotional personal diatribe was highlighted by a slide show, most of which was not relevant to national rental-purchase issues.

"This wasn't what we'd traveled all the way to Washington, D.C., for," says Waters. "The whole thing quickly deteriorated into a heated debating contest, most of them against us. We held our ground and they only got more upset. Finally, in the heat

of the debate about the sale-versus-lease, national Legal Aid coordinator Margot Saunders told us exactly what her problem with the industry was.

"She admitted something that we've known was behind their cause all along, but we were still shocked to hear her say it in public. She said that the sale-versus-lease wasn't her real concern. She claimed that, despite having full disclosure on our merchandise along with suggested retail prices, our customers are still unable to figure out that our eventual purchase price is sometimes higher than retail.

"Then she went on to say that this whole battle is about controlling prices in the rental-purchase industry. That's their agenda."

Waters said Legal Aid has damaged its own efforts in Washington. By insulting an annual customer base of more than three million people and then demanding price-fixing, elected officials may not be so quick to embrace legislation proposed by these so-called "consumer advocates."

—John Massey

Making a 'Strong' case with officials

JIMMY STRONG KEEPS A CLOSE EYE ON WHAT'S HAPPENING UP IN WASHINGTON, D.C., AND HE DOESN'T APPRECIATE THE EFFORTS OF U.S. REP. HENRY B. GONZALEZ AND SEN. HOWARD METZENBAUM, WHO AIM TO CLOSE DOWN HIS NORTH LOUISIANA EASY WAY RENTAL-PURCHASE STORES WITH SHORT-SIGHTED "CONSUMER PROTECTION" LEGISLATION.

•••••

Unlike those two federal representatives and Legal Aid lawyers, Strong knows the role his company plays in his community.

Rather than just being satisfied with sending in his contributions to the APRO Task Force, Strong is taking matters into his own hands and fighting for his right to do business and fighting for his customers' rights to own the merchandise they rent from Easy Way.

During the past six months or more Strong has become a familiar presence in the parish courthouses of the Bayou State, meeting with any authority who would listen about the value of his business and customers.

"It's just a matter of doing something," says Strong. "Most people don't do anything, and that's the reason they don't get things done. I haven't been turned down from any taxing authority, municipalities of any type, the sheriffs, the school



boards—anybody we pay taxes to. I call them because they will be effected if we lose. They will lose our tax-revenue-generating ability."

Strong's first hurdle was to educate the local officials about his business, letting them know the eventual local effects of proposed federal legislation. Many hadn't even thought of the rental-purchase industry as a source of tax dollars, but when Strong showed officials what he was paying into the parish tax base, their level of interest suddenly grew.

The economy is struggling in Louisiana, and city and parish governments don't need the feds draining off their much-needed revenue.

Strong has also spent a great deal of time urging his customers to contact their local, state and federal officials. After all, passage of bad legislation by the U.S. Congress will take away their goods and rights.

Stirring the issue up and educating people on the local level has proven to open the bridge to the federal level, according to Strong. There was a short time when he couldn't make contact with his U.S. representative, freshman congressman Cleo Fields of Baton Rouge.

Fields, a young and enthusiastic lawmaker who is expected to have a bright future in Washington, hasn't committed to either side of the issue, but he now knows rental-purchase is important to his constituents.

Fields serves on the House Banking Committee, so his support is important for dealers across the nation. Strong vows to keep up the contact.

—John Massey



Louisiana rental dealer Jimmy Strong.

APRO announces rental-purchase speakers' bureau

Over the past decade, the rental-purchase business has evolved into a highly specialized industry. APRO leaders want to recognize those who have made valuable contributions—such as speaking at educational seminars and writing articles for professional publications.

That's why APRO has created its own rental-purchase professionals' bureau.

To be listed as a member of the bureau, a rental-purchase professional must have contributed to the industry within the last two calendar years by either speaking at an APRO seminar or contributing an article to *Progressive Rentals* magazine.

Members of the bureau will be recognized in *Progressive Rentals* annually in the management services issue, beginning with February-March 1995.

"APRO realizes that there are a great many dealers who have much to offer the industry in the sharing of ideas and expertise," says Shelley Martinek, APRO's director of education.

Martinek encourages speakers to volunteer their services. They'll be helping others within the industry, while gaining prestige and respect as a member of the professionals' bureau.

Potential speakers should submit a paper outlining topics they'd like to address during the 1994 APRO convention, Aug. 3-7.

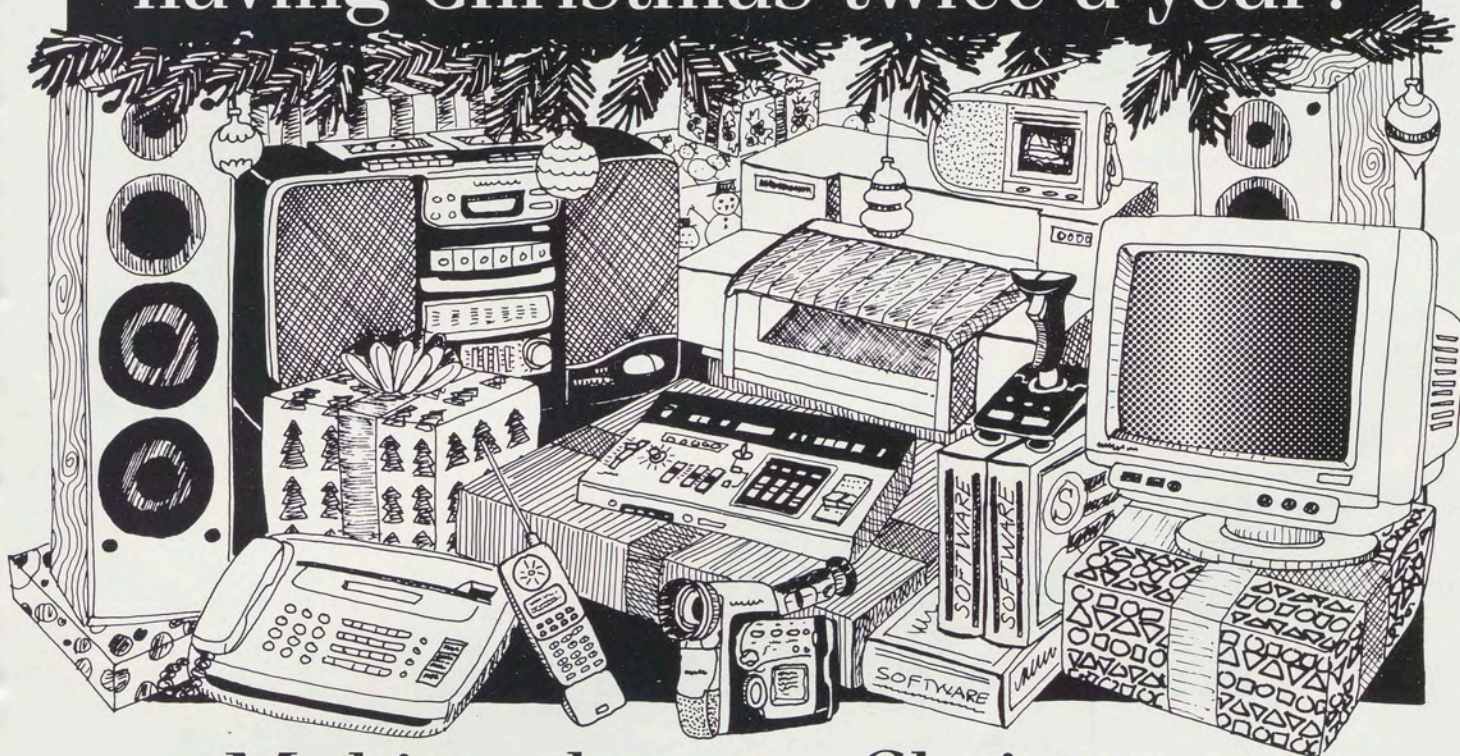
Outlines should be limited to one page, and speakers should also attach a brief biography telling about themselves, their qualifications and their history of success within the industry. Send papers to:

Shelley Martinek, director of education, APRO, 6300 Bridgepoint Parkway, Suite 305, Austin, Texas, 78730-5016.

If you're selected to speak, you'll also be asked to submit a publication-quality photo of yourself. If, instead, you'd like to write an article for *Progressive Rentals* magazine, send an outline or draft to John Massey, associate editor, at the same address.

PR

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If these have been prepared by a reputable and licensed public accountant, they will be far more credible than if self-prepared. Public accountants must meet certain proficiency levels to be licensed by the state in which they practice. This does not ensure that the accountant will do a good job for the rental-purchase operation, but it does narrow the field.

Local, regional and state professional associations are usually quite willing to provide referrals. The best way to locate an accountant, however, remains the tried-and-true method of asking others. Ask other dealers. Ask other successful small business owners, your banker or a trusted lawyer for recommendations.

How much does a good accountant charge? Accountants' fees, like those of lawyers, doctors and other professionals, vary widely. A neighborhood-based accountant may charge \$60-and-up per hour while some of the large, national accounting firms might charge \$100 to \$250 per hour.

A good, honest lawyer who cannot handle the job will tell the dealer that the requirements are outside the scope of his or her expertise. Many times, however, he or she may be able to recommend another for the job.

The dealer should choose a lawyer who has both the time and willingness to sit down and discuss legal matters at length. A great lawyer, even one particularly knowledgeable about the rental-purchase industry, is worthless if he or she is difficult to reach.

Closely related to availability is dependability. Make sure that the attorney can follow through on any problems that arise. Lawyers, after all, are selling a service. If that lawyer can't provide key services on time and in good order, and at a price consistent with the value, continue looking.

Every rental-purchase dealer knows that insurance is an important part of doing business. Knowing what insurance coverage is necessary, where to obtain it and affording that insurance are all matters which must be addressed. Here too, dealing with a professional doesn't cost, but pays.

While there are insurance consultants who expect to be paid for their

Who's who in management services

A number of services provide owners and managers with valuable tools. All management services providers listed here are either **APRO Associate Members (*)**, **advertisers (+)** in **APRO** publications or **APRO convention exhibitors (X)**. In addition, one consultant (>) to the industry.

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Lakewood, CO 80226
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*+Y **Rent America, Inc.**
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* **RTO Media**
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TV/radio commercials

*+Y **FORESIGHT, Inc.**
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*Y **C&W Publications, Inc.**
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* **Blue Ridge Burke Insurance**
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*+Y **Nationwide Admns., Inc.**
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(305)753-5849
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*+Y **John Alden Life Insurance Company**
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Miami, FL 33126-1208
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West Chester, OH 45069
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+Y **Saf-Write Forms & Systems**
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Avenue
Daytona Beach, FL
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(904)252-5766
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> **Harry Weisbrod Associates, Inc.**
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Dallas, TX 75382
(214)373-0435
Wage-hour consulting

advice, another type of professional frequently offers invaluable advice in the hope of selling that insurance coverage—an insurance broker.

An insurance agent is usually the employee of one insurance company which may or may not offer all the coverages desired by the business. An insurance broker, on the other hand, represents many insurance companies.

The insurance broker, obviously, is interested in selling insurance. The broker's income comes from commissions on the policies sold. But the broker offers an important service, a service every bit as valuable as those services provided by the operation's accountant or lawyer.

Once a dealer has decided the scope of outside professional services that are needed to help the rental-purchase operation grow and prosper,

the recommendations of friends, business acquaintances and other professionals should be sought. This list of professionals should be culled to eliminate those too far away, unqualified or too specialized to be of use.

The process of finding the right professional should also include a personal interview. Most professionals offer a free first meeting. At that meeting the dealer discusses what he or she needs in the way of services and attempts to discover whether the professional can provide those services. It is also a good time to discover any conflicts such as differing expectations or incompatibility that might taint any long-term relationship.

Ask, evaluate and shop for those mandatory professional services—but only after understanding what services are actually required.

—Mark E. Battersby

Southern Rings

Southern Rings staff consists of former retail jewelers with RTO experience. They possess high work ethics and a reputation for integrity.

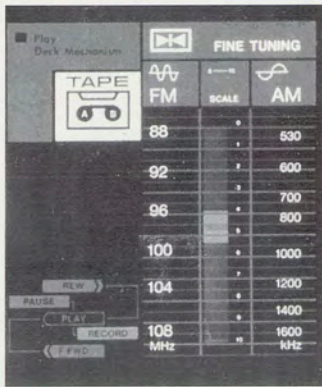
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Japanese company looks at RTO

APRO's home office in Austin, Texas, was honored recently by a visit from four representatives of Japan's Duskin, a multi-national corporation which has United Rentall as one of its subsidiaries.

The group of representatives toured the United States to research the rental-purchase industry and see if Duskin's rent-to-rent business could be expanded to include rent-to-own options.

Duskin was represented by Takashi Morisawa, director and group general manager; Kenzi Takashima; Tetsuo Tamura; and Masaaki Azuma. Kazuko "KZ" Morihiro of Los Angeles served as the translator for the Duskin group.

The group's first meeting in Austin was with Action Rent-to-Own's Bill White. White, who serves on the APRO Board of Directors, told the group about running his business, how the rental-purchase transaction works,

the costs of providing free service and delivery to customers and his concerns about possible federal legislation governing the industry.

Following the meeting, White and Action regional manager Cary McPherson led a tour of two Action Rent-to-Own stores in Austin. The visitors watched as customers made walk-in payments; they saw an Action employee explain a rental-purchase disclosure form to a potential customer and they saw an Action repairs specialist at work on a returned VCR.

On the following day, the Duskin group met with APRO Executive Director Bill Keese and legal counsel Ed Winn. Keese and Winn both described in detail the rental-purchase industry in the United States.

"The gentlemen told us that only about 3 percent of the population in Japan is either without credit or has bad credit," Keese said. "We told them that renting-to-own as we do it here in the U.S. may not be the best option for their business in Japan. But there are some things that (APRO member) David Filsell and Radio Rentals do in Australia that may work and prove profitable in Japan."

Renting goods in Japan is very popular since homes are generally very small, with little room to store possessions. Therefore, according to the Duskin group, people often rent things



Shelley Martinek, APRO director of education.

they need infrequently, such as luggage.

Morisawa said he and his associates learned a great deal while in Austin, and he would consider attending APRO's annual convention in Orlando this summer.

New insurance for APRO members

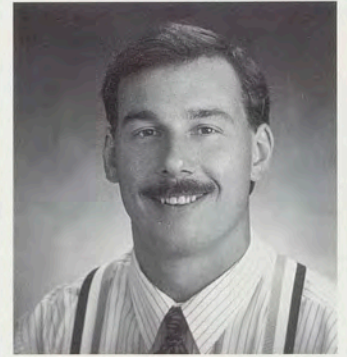
Rental-purchase operators who are members of APRO can now obtain reasonably-priced property and casualty insurance from a pair of new associate members who write coverages on a company-by-company basis.

For companies located east of the Mississippi River, Blue Ridge Insurance Company is anxious to serve APRO members. Those interested should contact Sherry Stevenson at (910)722-7187. Or fax her a line at (910)722-2308.

Companies located west of the Mississippi may contact Gene Kelsay at G-K-S Insurance Agency. Kelsay may be reached at (303)988-1234, or fax a message to (303)988-3538.

Other discounted member services offered to APRO members include: Airborne and Federal Express deliveries (call Lane Burtz of American Business Alliance at 1-800-466-8143); long distance telephone service (call Regina Rudd at Allnet Communication Services, Inc., 1-800-783-7283, ext. 1092; and wage-hour consultation by Harry Weisbrod or Brian Farrington of Harry Weisbrod & Associates at (214)373-0435.

For more information on



John Gormley, APRO director of communications.

APRO member services, call Carolyn Fitzsimmons at (512)794-0095.

APRO staffers earn certificates

APRO staffers Shelley Martinek and John Gormley earned professional certificates in February, after garnering educational credits in their respective fields.

Martinek, APRO's education director, earned a certified meeting planner designation from the Convention Liaison Council. The council is comprised of 24 organizations representing the convention, meeting, trade show and exposition industry. One of Martinek's duties with APRO is to schedule and coordinate annual and mid-year conferences, meetings and trade shows for members.

Gormley, APRO's communications director, has been certified as a public relations professional following months of study at the University of Texas.

Rent-Way reports record earnings

Rent-Way, Inc., announced record revenues and profits for the fiscal year which ended on Sept. 30, 1993. Rent-Way, which went public in August, has rental-purchase stores in Florida, Ohio and Pennsylvania.

For the record-setting year, Rent-Way reported revenues of \$8,447,127, a 12-percent increase over the revenues for fiscal 1992.

PR

Photo by John Massey, APRO staff



Bill White of Action, with the help of a translator, shows off one of his stores Feb. 14 to Takashi Morisawa of Japan's Duskin.

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