



# PROGRESSIVE Rentals

The magazine of the rental-purchase industry • October/November 1995

## **Annual computer issue**

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get the biggest  
returns on your  
investments**

**Software and  
hardware solutions  
for rental-purchase**



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25" Diagonal XS® Stereo TV



13" Diagonal KitchenVision®  
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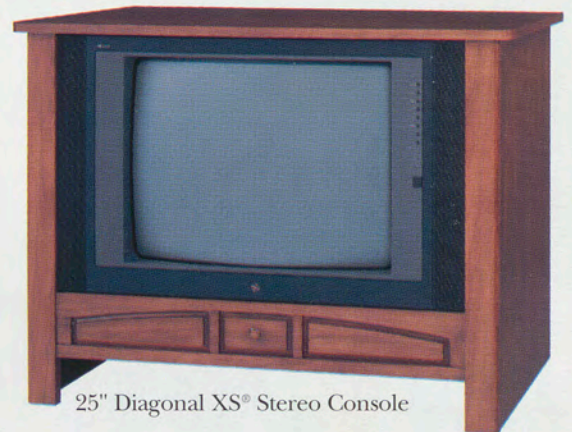


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Cover design by Joel B. Mathews



# TRIB Group

85 Members  
Over  
1100 Stores

## Thank You for Your Support 1983 - 1995

150+ Million  
Dollars in  
Annual  
Buying  
Power

\*5 Year Member

\*\* 10 Year Member

Aarons Rental Purchase* Atlanta, GA	Bardstown Electronics* Bardstown, KY	Express Rent-to-Own Kent, WA	Koach's Sales* Mishawaka, IN	Rentway, Inc.** Junction City, KS
Aarons Rental Purchase Franchise Division Atlanta, GA	Basham Furniture Rentals* Wichita, KS	Express Rentals Little Rock, AR	Lafco Rentals, Inc. Lawrenceville, GA	Rent-Way, Inc.* Erie, PA
Ace TV Rentals Athens, GA	Bargain Rentals Shelbyville, TN	Fastway, Inc. Little Rock, AR	Lease-to-Own, Inc. ** Waxahachie, TX	Royce, Inc. Indianapolis, IN
Action TV Rentals, Inc.** Saltillo, MS	Bert's Rentals** Granite City, IL 62040	Fast Rentals, Inc. (JDN) Atlanta, GA	Mayco Enterprises* Tupelo, MS	Sage & Sand TV Goodyear, AZ
Action TV, Inc. * Salt Lake City, UT	Bestway Rentals & Sales Norfolk, VA	Gill Electronics Albany, GA	McGregor Enterprises* Pascagoula, MS	R.T.O. Superstore Monroe, LA
Adams TV Rentals* Weare, NH	Bi-Rite Company** Tampa, FL	Harvey's Neighborhood * Rentals Knoxville, TN	Mr. C's Rentals** Greenboro, GA	Score Discount Rentals Bessemer, AL
Adam's Wayside Taftville, CT	Blue Ribbon Rentals** Cuyahoga Falls, OH	Happy Rents, Inc.* Birmingham, AL	Ownerent* Great Falls, MT	Seajay Investment* Corpus Christi, TX
Advance Rental Centers Joplin, MO	Cari Rentals* Omaha, NE	House of Rentals* Lakewood, CO	Payless Rentals Jonesboro, AR	Showcase TV & Appliance** Huntsville, AL
All Star Rentals, Inc.* North Charleston, SC	Carefree Rentals** Pueblo, CO	Household Rentals* Oshkosh, WI	Prime Time Rentals/ ABC Rentals Roanoke, VA	TVCO Outlet Marion, OH
All American Rentals* Denver, CO	Choice Rent-to-Own Suisun, CA	House of TV Everett, WA	Quality Rentals Tacoma, WA	Star Rentals Harrisonburg, VA
Alreco, Inc.** New Albany, IN	Circuit World Murphy, NC	Instant Rent-to-Own Hammond, LA	Rarick's RV, Inc. Fort Wayne, IN	Term City* Moline, IL
American Rent-to-Own Garland, TX	Coleman Rentals Kalamazoo, MI	J & F TV & Appliance Salem, OR	Rental City, Inc. Kansas City, KS	Thompson TV Rentals* Moberly, MO
America's Rent-to-Own Chanute, KS	Colorvision, Inc. Abilene, TX	Jet Electronics & Home* Furnishings Jackson, TN	Rent One/SKC Mount Vernon, IL 62864	E-Z Rentals Magnolia, AR
Amigo Rentals* Albuquerque, NM	Colorama Rentals Raintree Group Lexington, KY	Jett TV & Stereo Rentals Wynne, AR	Rent-to-Own (Gizmo's Home Showkase) Casper, WY	United Household Rentals* Cincinnati, OH
Appliance Warehouse* CM Showroom Garden City, KS	Countryside Rentals* Bainbridge, OH	Today Rentals* Baltimore, MD	Rentown, Inc. ** Plantsville, CT	Woodville Rentals** Oregon, OH
B&L Concepts, Inc. Tampa, FL	Discount TV Corp.* Surfside Beach, SC	Kelly Rentals* Danville, VA	Rent Town** Erie, PA	Yam's Rent-to-Own* Little Rock, AR
Baber's Leasing, Inc.** Pascagoula, MS	Discount Center of America Ft. Lauderdale, FL	King Frog Rentals** Clarksville, TN	Rentown USA Vancouver, WA	Smile Rent-to-Own* Tamuning, Guam

For more information, call John Blair 770-451-4302 • Fax 770-451-4312

**Blackwell earns CFE title**

**Sandra "Sandi" Blackwell, ColorTyme's director of franchise compliance and an APRO board member, became the first woman to earn the designation of Certified Franchise Executive from the International Franchise Association.**

Blackwell, who joined ColorTyme in 1979, is one of only eight people holding the designation. Blackwell and the other seven CFEs will be recognized as the international association's first "graduating class" at a banquet on Jan. 25. A CFE designation requires 3,500 credits, based on a combination of education, professional experience in franchising and attendance at the international association's conferences and seminars.



"This is a new, four-year program, but I was able to complete it at an accelerated pace because of my 15 years of experience and education in franchising," said Blackwell, who helped launch ColorTyme's franchising efforts in 1982.

"This certification is new, but it represents many years of work in all aspects of franchising. The franchising arena is as much fun and exciting as rent-to-own. I feel very fortunate to have the opportunity to work with both."

Blackwell said that although she is the only woman to be certified by the international group, the world of franchising has seen many women jumping into franchising over the past decade.

The four-year CFE course tests members' abilities in all major areas of franchising—knowledge of legal requirements and operational aspects, franchisor-franchisee relations and marketing, to name a few.

"Franchising is a form of business that I believe in, and this is a very exciting time to be in this line of work," Blackwell added. "It is fascinating to see the franchising concept develop internationally. It's a very 'American' concept, and it is really catching on in other countries."

**HTP International gives APRO \$5,000**

APRO associate member Home Theater Products International, exclusive distributor and manufacturer of audio and video products for Paramount Pictures, is giving something back to the rental-purchase industry.

HTP International gave \$5,000 to the Team APRO fund in September and challenged all APRO associate members and vendors to meet or exceed its contribution. The HTP International contribution came after The Rental Industry Buying (TRIB) Group issued a similar challenge and presented Team APRO with \$2,500.

Other associate members contributing to the cause: FORESIGHT, IC Systems and High Touch. Large contributions have also been made by state rental associations in Michigan, Missouri and Alabama.

"Contributions of this size from our associate members proves that we are all in this together," said Ron Waters, APRO government affairs director. "We continue to fight the good fight up in Washington and on the public relations front, but it takes money to stay in that game. It's great to have vendors like these on our team."

**Gates promoted**

Walter E. "Bud" Gates, chairman and CEO of Rent-A-Center parent THORN Americas, has added to his list of duties the direction of THORN Group's Asia-Pacific operations. Thorn Group is the international rental division of London-based THORN EMI.

Gates, who also is THORN Group deputy chief executive, became Rent-A-Center president in 1986 and was promoted to THORN Americas chairman in 1992.

"Bud's expanded duties reflect our decision to focus new-territory development in Asia-Pacific around implementation of the proven Rent-A-Center business model," said THORN Group Chief Executive Mike Metcalf. "That model has already been exported from the United States to Great Britain, with the creation of a new and very successful rental-purchase concept called Crazy George's. We believe there is tremendous opportunity for the same new-business development in Asia-Pacific, and Bud is uniquely qualified to lead those efforts."

**Alreco growing**

Alreco, Inc., has raised its rental-purchase store count to 69 with the acquisition of 15-store company Television Management, Inc., of Metairie, La.

The newly acquired stores, which should all be converted to Alreco units by April 1996, are located in Miami, Indianapolis, Phoenix, New Orleans and Cleveland.

Alreco, based in New Albany, Ind., has doubled its number of stores since July 1994.

**PUBLICLY TRADED RTO STOCKS**

RTO Company	Symbol	11/7 Price	52-wk. hi	P/E
<b>Advantage (COMCOA)</b>	<b>ADVG</b>	--	--	--
<b>AaronRents A</b>	<b>ARONA</b>	17-3/4	19-1/4	14
<b>AaronRents B</b>	<b>ARONB</b>	17-1/4	19	--
<b>Renters Choice</b>	<b>RCII</b>	16-1/2	18-1/4	32
<b>Rent-Way</b>	<b>RWAY</b>	10-5/16	11-1/8	54

## Annual legislative event Feb. 5-6

The second annual APRO Legislative Conference is scheduled for Feb. 5-6 in Washington, D.C. Last year's event drew 100 rental-purchase dealers to the nation's capital to learn more about the legislative process and lobby their federal representatives.

The 1996 conference will be headquartered at the Hyatt on Capitol Hill. In addition to grassroots visits to congressional offices, APRO plans various social and educational events. The heavy turnout at the 1995 conference played an important role in the industry's victory in the sale-vs.-lease battle with the Internal Revenue Service.

Rental-purchase dealers wishing to attend should contact Jana Benker at the APRO office, (512)794-0095.

## Mid-year event set in Monterey, Calif.

APRO's 1996 mid-year conference is scheduled for April 15-17 at the Monterey Marriott in Monterey, Calif.

The tentative schedule has the conference opening with a welcome luncheon at noon on Monday, April 15, followed by seminars from 1-5 p.m. Tuesday's schedule begins at 9 a.m. with an industry round-table discussion. An RTO accounting and legal update is slated from 1-5 p.m., followed by a hospitality reception from 5:30 until 7.

APRO is arranging a golf outing and a tour of the Monterey area on Wednesday. Final details and registration information will be published and distributed to APRO members when all plans are finalized.

## Bally's honored

Bally's Las Vegas was recently honored for the sixth time with *Successful Meetings* magazine's Pinnacle Award.

This year's winners were chosen from more than 1,000 meeting and incentive properties, and more than 600 bureaus and tourist offices across North America and around the world.

"Bally's is the best hotel I have ever worked with during the planning and execution of a meeting," said Jeffrey V. Horton, advertising manager, Yamaha, in the August issue of *Successful Meetings*.

APRO Education Director Shelley Martinek also has high praise for Bally's, and even appeared in a Bally's promotional video made this year—as free talent, of course.

APRO's 1993 convention and trade show was held at Bally's Las Vegas. APRO will return to Bally's for its 1997 convention.

"Bally's just seems to have the best service and organization," said Martinek. "They are really geared to the convention and meetings business, and they've always treated our people right."

## APRO Team fund in need

**Just more than \$533,455 has been collected by the Team APRO fund, well short of the \$1 million goal and \$239,200 shy of pledges received by the APRO office.**

Money raised by Team APRO goes to pay for the rental-purchase association's lobbying efforts in Washington, D.C., its continuing efforts to protect the industry in the tax courts, and APRO's public relations and industry image efforts.

"We have to do whatever it takes to reach our goal," said David P. David, the APRO board member in charge of fundraising. "We should collect the \$760,000 pledged, but we need to hit the \$1 million goal to do all of the things we need to do. This money goes toward protecting our industry and keeping it strong."

David said he hopes business owners also get their employees involved in Team APRO fundraising. In a pamphlet distributed at APRO's August convention in Las Vegas, David asked that every owner contribute \$300 per store. The pamphlet also asked for \$10 from each manager, \$5 from employees, and \$1,000 from manufacturers and vendors selling merchandise to the industry.

Indiana rental dealer James Patterson showed his commitment to the cause in September by challenging his Continental Rentals employees to raise money for Team APRO, and telling them he'd match what was raised. The employees pitched in \$2,680, and Patterson's check made the company's contribution \$5,360.

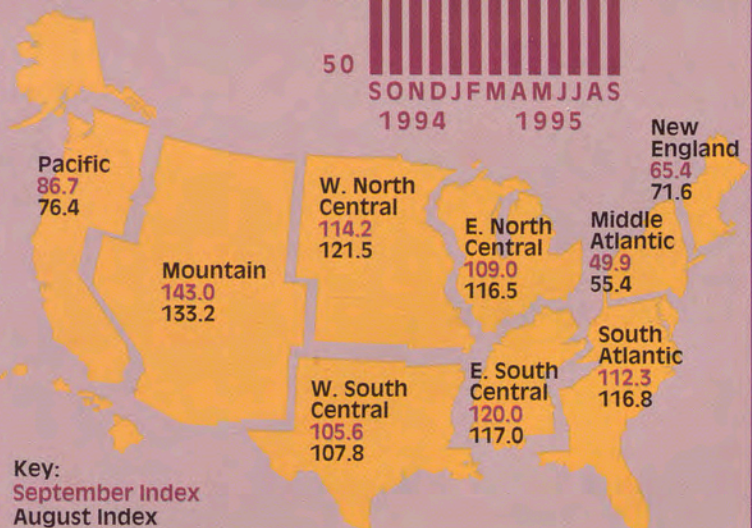
APRO Executive Director Bill Keese said that all dealers who have made pledges of at least \$300 per store, should try to get their contributions in as soon as possible.

"We need the money so we can put it to use right away," Keese said. "For those dealers who have not made a pledge to Team APRO, I want to remind them that, over the past two years, we have saved the entire industry an estimated \$1 billion. That's not a bad return on less than a dollar a day per store."

## Consumer Confidence

**U.S. Average**  
September: 97.4  
August: 102.4

by region  
Seasonally unadjusted  
index: 1985=100



Source: FURNITURE/TODAY



**Your APRO Board of Directors and association committees wrapped up a comprehensive set of meetings during October in Austin, Texas.**

**As I reflect on all we accomplished Oct. 26-28, I'm more satisfied than ever that our association is in good hands.**

The committees are off and running. We voted to open up the committee structure by encouraging chairmen to invite the presidents of state rental-purchase organizations to serve on APRO's committees, which are listed on the facing page.

This can only lead to more participation and better representation of the membership.

I believe we are focused on the right areas to ensure a strong industry in the coming years. Of course, we had good news to report in government relations, and tax and accounting. And while we will maintain our vigilance and commitment in these key areas, we are preparing to turn our focus to new opportu-

nities that will make a huge difference in our future. Public relations and ethics are chief among these new opportunities. You'll find more space devoted to these topics elsewhere in this issue of *Progressive Rentals*.

Even though we're always busy addressing the industry's big challenges, we won't ever forget what it's like to face the day-to-day pressures of running a business. APRO is committed to ensuring a strong industry, while providing its members with a host of tangible benefits and services to help them run better businesses—and more than offset the cost of membership dues.

Here's a list of services for APRO members:

- Discounted rates for long-distance telephone service through MCI.
- Discounted rates for overnight delivery through Airborne Express.
- Group health insurance for as few as one employee.
- Property and casualty insurance.
- Wage-and-hour consultation.

If you have questions on APRO's member services or would like more information, please call Carolyn Fitzsimmons, membership director, at (512)794-0095.

APRO also has a library of how-to publications that address operations and financing. These are available at deep discounts for association members. New this year is a special legal reprint of our annual state-by-state laws section in June/July *Progressive Rentals*, authored by Ed Winn. The reprints are free to members upon request. Call Laurie Derton at the above number if you're interested in any of these publications.

We are also taking advantage of the communication tools available through cyberspace. If you have Internet access, you can send electronic mail to association staff. To send electronic mail to APRO Executive Director Bill Keese, use this address: [billkeese@aol.com](mailto:billkeese@aol.com). You may also send messages to me this way, if you prefer, but use Bill's address and he'll forward the message. To send e-mail to APRO's communications department, use: [johng37@aol.com](mailto:johng37@aol.com). To reach government or public affairs: [rmay111665@aol.com](mailto:rmay111665@aol.com). If you have an America Online account, simply drop the @aol.com. If you have a CompuServe account, send mail to: 72674,2466.

I believe in keeping the lines of communication open. So please let me or the staff know how we can better serve you.

*Bill White, in his first term as APRO president, is owner of Action TV & Appliance Rental, based in Mesquite, Texas.*

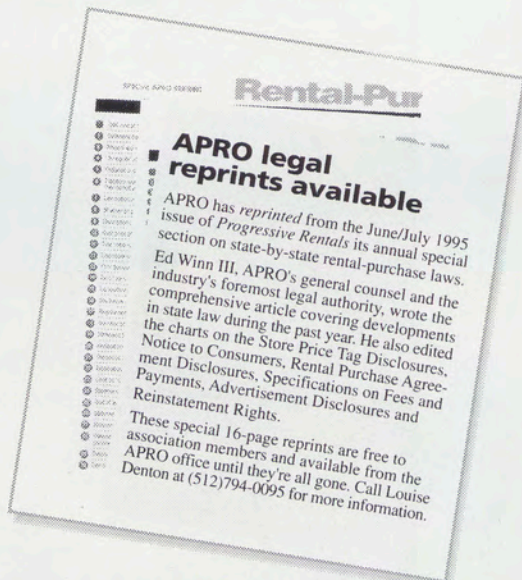
# PROGRESSIVE Rentals

The magazine of the rental-purchase industry • June/July 1995

## keeping it legal

### Rental-Purchase Laws Update

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**APRO**

## APRO 1995-96 committee chairs

Here's a list of APRO's major policy-making committees and their chairmen for 1995-96:

**Communications**, chaired by Chris Korst, Rent-A-Center, Wichita, Kan.

**Education**, chaired by David David, Full-O-Pep, Bloomington, Ind.

**Ethics**, chaired by Charles Cloud, Fastway, Little Rock, Ark.

**Government relations**, chaired by Chris Korst, Rent-A-Center, Wichita, Kan.

**Membership**, chaired by Rich Bartel, Rentown USA, Vancouver, Wash.

**Public relations**, chaired by Ernie

Lewallen, United Household Rentals, Cincinnati, Ohio.

**Tax and accounting**, chaired by Wayne Chambers, Amigo Rentals, Albuquerque, N.M.

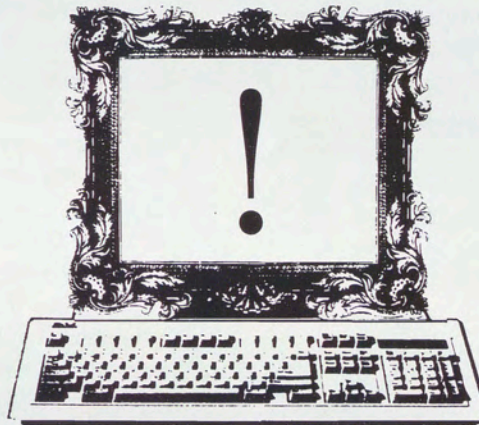
Committee chairmen are named by the president, with a few exceptions as prescribed by association bylaws.

Other committees:

**Budget**, chaired by Ted Wilson, Alrenco, New Albany, Ind.

**Nominations**, chaired by Darrell Tissot, Countryside Rentals, Bainbridge, Ohio.

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**Rentaissance**  
RENTAL PURCHASE SOFTWARE



**Over the past two years we have talked a great deal about our grassroots activities in educating members of Congress on regulatory and tax issues affecting rental-purchase.**

**With your help and support, this has become the most successful legislative initiative ever.**

We remain committed to our grassroots activities on the federal level until all our issues are successfully resolved.

Time has come for us to expand grassroots activities to public relations. We have been successful in improving a small segment of the public's perception on our industry. Much work still needs to be done. We have many years of negative perceptions of our transaction to overcome. No longer can we let our natural opponents define who we are.

The board approved the development of the television commercial that was previewed during this past convention in Las Vegas. The commercial will be stop-motion animation, similar to the famous Budweiser ants and frogs, and Coca-Cola's polar bears. The character we are using is a dog named "Gus." We plan to use the Gus theme in many ways, including providing Gus costumes for APRO members to use in local promotions and charitable activities. The message is the convenience and ease of rent-to-own.

The filming of the spot is scheduled for January. It will be filmed in San Francisco using some of the best animation talent in America. When the spot is completed, we will test market it in a few selected areas before making it available to all APRO members.

Next spring at the annual mid-year conference, we will have a grand unveiling of the spot and how you can use it in your markets to promote the rental-purchase transaction. We do not have a media-buy budget, but instead will ask all APRO members who use television to place the spot in their normal rotation. There will be a five-second tag on the end for the local dealer or dealers to promote their stores.

We know that most of you provide products and services to many diverse charitable organizations as a normal course in your business life. The second part of this public relations campaign will be to encourage increased charitable activities and to be recognized for your good deeds. For example, the Indiana rental dealers raise and contribute \$10,000 a year to the Children's Miracle Network. Other dealers contribute beds, TVs, etc., to such diverse groups as battered women's shelters, flood and storm victims, homeless organizations, and other worthwhile programs. We will do all we can from the APRO office to ensure that these activities are recognized.

The most important feature of this more active approach to public relations is to take the grassroots lessons we have learned over the past two years and apply them to our public relations activities. To accomplish this,

we have created the department of public affairs and I have appointed Richard May to head this effort. As an integral part of all our efforts, I will be very involved, as well as John Gormley, John Massey and the APRO Public Relations Committee, chaired by Ernie Lewallen.

We will need your help to organize the grassroots public relations efforts. Richard will be mailing a media questionnaire to all APRO members in late November. Please take some time and fill out the questionnaire. Just as we did with the grassroots efforts with Congress, we need to survey to find out where we are in efforts to reach the public.

Already, many dealers are calling the APRO office to ask when "Gus" will be available. The excitement is building. Some dealers have even stated they are willing to help make Gus bilingual. Others are asking how they can incorporate Gus in their own commercials. The possibilities are vast and we intend to make the best use of the new directions.

I can assure all that we are excited about this new strategy for the association. We hope you will be, too, as you learn more about it.

*Bill Keese is APRO's executive director.*

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1 furniture and appliance store with retail sales and rent-to-own sales in Houston, Miss. This store has a 20,500 square foot showroom with 7,500 square foot warehouse and is the anchor store for the other 3 stores.

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# COMPUTER CULTURE

**M**any of us who are middle-aged or beyond had hoped computers were just a passing fantasy. They weren't. We who predated compulsory computer training in the schools didn't understand computers. We couldn't see why we would ever want to. Basically, we hoped they would go away. They didn't. Given a little time to reconsider the situation, we really didn't want them to.

## COMPUTERS MAKE MONEY

Computers can spell success for you in a number of ways, whether you use them to streamline your business operations or as rental items themselves, or both, as most dealers do. In the rental-purchase industry, they have found widespread acceptance, even appreciation, as a business tool that allows the dealer to make informed business decisions—and money.

With the right computer system and software (almost exclusively IBM-compatibles, as there is little or no Mac software for the rental industry) you can take total control of every aspect of your business and get an instant picture of your total business situation on a moment's notice. Computers can control inventory, track daily receipts and expenditures, provide the information you would need for an audit, keep you abreast of regulatory changes in state and fed-

eral legislatures, collect on delinquent accounts, improve communication among stores in a chain, help you choose what products to carry, and provide the information you need to target specific audiences.

Best of all, many software writers serving the industry have personal experience in RTO and are fully knowledgeable in store operations, so they can customize your program to suit your needs and program in the flexibility you need to grow and change with your business. Best of all, everything the computer does today it does faster and better than it did yesterday.

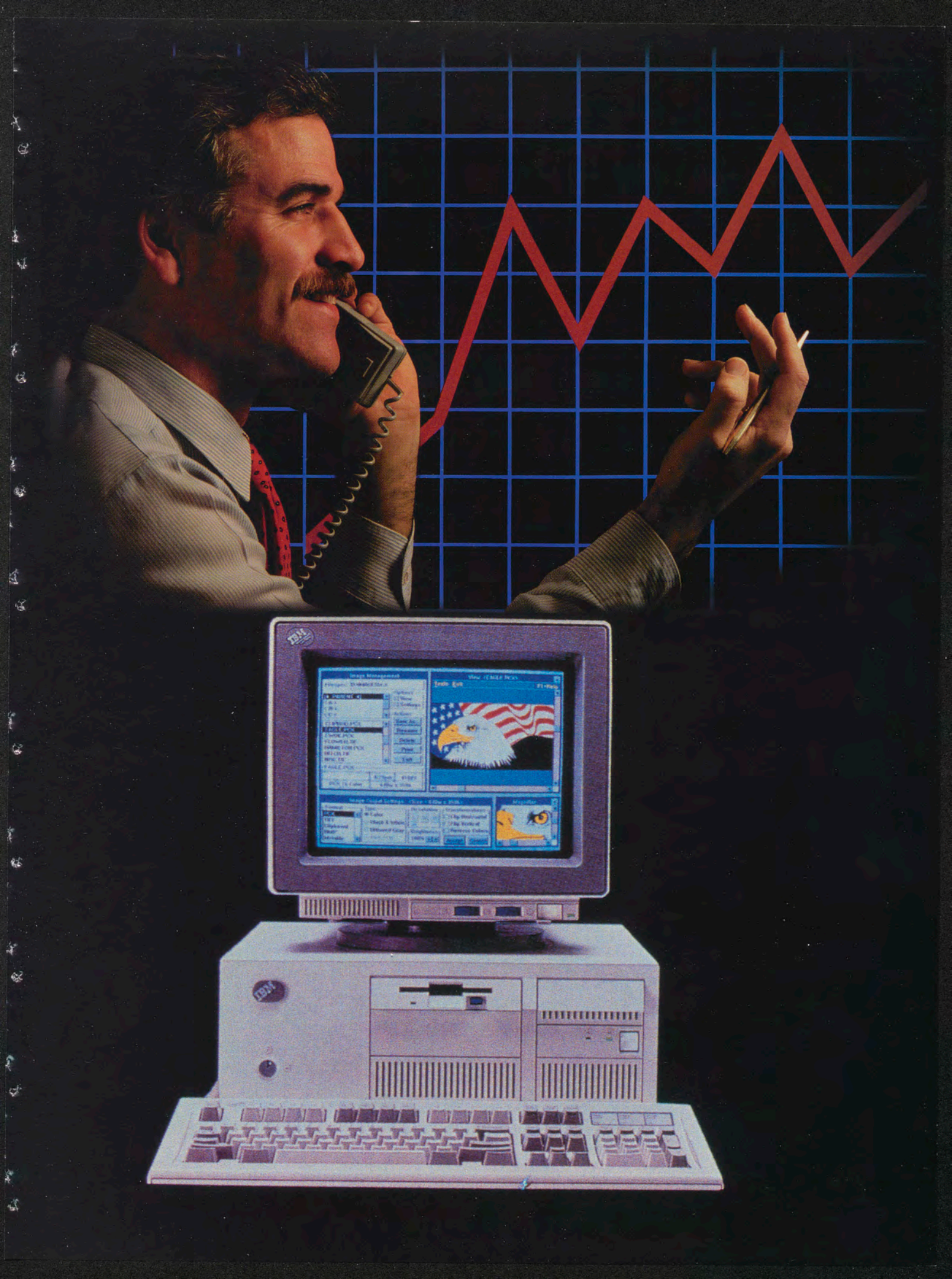
## MORE, MORE, MORE

Les Feldser, president of Rental & Sales Software Systems (RSSS) of Corpus Christi, Texas, has supplied computer software to the rental-purchase industry since 1979. His software "completes the software loop" by providing monitoring capability to control all aspects of the business, including receiving, rental contracts, accounting, etc., from start to finish. RSSS software can interface data into a general ledger for financial information and replace all manual bookkeeping with a computerized system that cuts down on the human-error factor.

"They can do more management with computers a lot more accurately," says RENTEK's Jerry Rankin. RENTEK sells both new systems and

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BY BARBARA STOOKSBERRY





**Computers are overrated. Begin with that.**

**Any who disagree should be prepared to explain why, when there are more computers in the American workplace than ever before, worker productivity hasn't exploded proportionately and operating margins aren't much different, either.**

Certainly most would agree that the chief reason for improving the accuracy and flow of information is to improve operating results. Anything else is chrome plate on a too-worn engine.

What many people fail to realize is that, while the right computer system definitely improves the quality of information about your business, it alone rarely makes a difference in the *quality of that business*, sometimes not even in the quantity of it.

You can prove this theory out at lunch time by visiting the burger joint with the big arches and any other burger palace. Both operations will be cyberwired to the max, including the doomsday alarm on the automatic French fry machine. But it isn't hard to see that one is getting it right and thriving while the other is trying hard not to look like some poor relation. Same product (hamburgers), like capabilities (computer systems), but vastly different outcomes (sales and profit). Why?

To be sure, computers have improved efficiency and accountability in some areas. For example, everybody knows exactly how much they spent last year on computer paper, computer parts, computer service, and related computer needs. Any MIS department worth its salt can provide those figures in a dazzling variety of reports, most of which will never be read.

And, as the detective said about the body in

the parlor, therein lies the problem. There can be more reports than people trained to use them. Thus great opportunity is lost to old-fashioned unpreparedness. In a time when every trainee knows what the numbers are, only some managers know what they mean and fewer can identify the factors that drive them. We have confused one of the processes of management—the efficient collection of information—with management itself. They are not the same, but the absence of one diminishes the other.

One of the more unfortunate aspects of all this is that people hired amid great expectations can fail miserably not because they are helpless in front of a keyboard, but precisely because they are so facile with it. The ease with which they input and manipulate information can look, from a distance, like they are managing. So they never have to learn or even become reasonably adept at the other, more complicated things real managers do: set goals, delegate, direct, monitor, and so on.

But you can be sure that, somewhere today, somebody's being touted as management material because "he really knows the computer." Take a mental journey back to the prehistoric Manual Age. It's hard to imagine anybody of that era being seriously considered for promotion, even partly, because "he really knows the file cabinet." Or the calculator. Or the photocopier. In the evolution of management, today's ideal candidate is one who has managed to acquire roughly the same skills as the new inventory clerk. Selection of the Species, circa 1990. (By the way, good inventory clerks are infinitely more valuable than bad managers.)

Smart companies know that employing a good understanding of the information going into a computer transcends any amount of knowledge in how to get it there. Nevertheless, a fair number of rental companies still insist that would-be managers

undergo days of computer training in which keystrokes and screen prompts take on critical proportions while virtually no attention is given to analyzing the output to solve problems or attain certain objectives.

Companies stuck with expensive computer systems and no discernible improvement in results failed to see the fork in the road, even when it jumped up and smacked them square in the head. They bring to mind the floundering company that hires a new accountant, only to learn months later they are still going out of business, but just faster and more accurately.

Some owners and managers over the last few years have remained steadfast in their belief that computers mean you no longer have to worry about training, teaching, or any of those other troublesome activities that cost a lot and never seem to pay off. Presto! You can just rent somebody's software system and then dispense information in daily doses, like medicine to cure whatever ails the company today.

Computers are overrated because the real operating system of any company is its people, not its computers. What some of us appear to have missed in the rush to computerize is a way to handle the new strains and responsibilities that will be pushed onto a great lot of people by this virtual river of information now flowing through the company. If the whole thing is to work, somebody must analyze the data, act on it, and then follow up. And if the management skills of those people are not upgraded at the same time the company upgrades its information system, not much good will happen regardless of how much is spent.

*Bud Holladay is a vice president at New Albany, Ind.-based Alrenco. He is a former rental dealer and the founder of APRO.*

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upgrades for older systems. "Upgrades allow dealers to maximize what they get out of an older system with a lesser outlay of funds."

Rather than waiting for a catastrophe, such as an audit, to strike, dealers increasingly recognize how software customized to the rental-purchase industry can help them stay informed of changes in government regulations, especially in the area of depreciation. Software developers are constantly challenged to keep abreast of changes in the laws affecting RTO and to incorporate them into their industry software, even when they differ from state to state and among the local, state and federal governments.

IT'S ALL IN THE NUMBERS

Deabe Hall of High Touch in Wichita, Kan., says reporting is what it's all about. "This business is about numbers," says Hall, "and with computers, tedious details are reduced to a touch of a button." Her company is also answering industry concerns with programs that handle the rent-to-rent aspects of ongoing service products such as cellular phones and pagers.

Rental Information Systems of Magnolia, Ark., is also addressing the need to track air time, which never pays out, separately from beepers and phones, which may or may not pay out, says Lori Smith, director of marketing.

Rental-purchase dealers "are looking for a higher technology than in the past," says Smith. Rental Information Systems also has a hot new product in a completely automated hardware/software combination system that takes information on expired accounts, calls delinquent customers with a prerecorded message, and presents them with such options as leaving a message, leaving a commitment, or talking to the account manager. "This system, and others like it, can be completely automated," says Smith.

New technology lets you direct mail to customers targeted for add-on promotions, to market to certain zip codes, and to target special populations, such as customers who are about to pay out. Computer-generated data can also aid in product selection. "Income reports that let a dealer know which categories are generating the most revenue," says Smith, "will help them plan future purchasing and marketing moves. Software has become a partner to dealers by giving them the information they depend on to help their company grow."

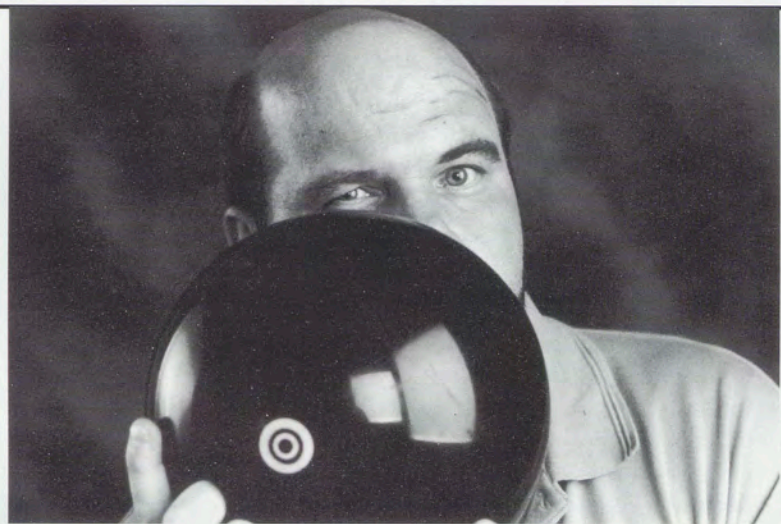
Sherry Sorey of Ideal Software in Meridian, Miss., says her company tries "to improve or add to its software on a continuing basis," adding more features, generally at the customer's request, to make its products "more user friendly." Many companies, like Ideal, offer various training options—once you lease an Ideal system, you can install the software yourself or get on-site training, and you can make use of a support line that offers help at the level you need when you need it.

Another area where advancements in computer technology can give you a leg up on the competition, according to Lori Smith, is in

products with multiple components. "An example would be a computer system which has the CPU, a monitor, hard disk, CD-ROM, etc. Each of these items can be very expensive, yet you would not typically rent them individually. By adding them as components you could rent a computer consisting of all these components. Software that tracks components is essential because you can add or delete components from that base unit and keep the same item number."

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**I went to a memorial service for Willie Talley late last month in Athens, Texas.****Willie died Sunday, Oct. 29, at the relatively young age of 59. Willie owned ColorTyme, Inc., the largest franchise rental-purchase operation in the country.**

He and his brother, Ernie, if you believe the apocryphal stories of rental-purchase's beginnings, like Romulus and Remus founding Rome, founded the rental-purchase industry in this country out of their retail store Mr. T's Appliances in Wichita, Kan., in the late 1950s.

I cannot say that I was particularly close to Willie. I did know him for 15 years, though, and his passing has made me think about him and the business.

Early on, Willie Talley was no great friend of APRO. He was starting up a franchise operation about the same time as others of us were starting up a trade association. I suppose he viewed APRO as a threat or at least a competitor to his franchising efforts. If APRO was willing to tell people how to get in the rental business, why would they need to buy a ColorTyme franchise? In fact, APRO has never had the wherewithal to tell people exactly how to get into the rental business.

I might hope that APRO helps rental dealers run their businesses "better," but I've never thought APRO possessed the particular kind of information and resources necessary to put someone in the business. Most often, when I used to get those kind of calls—"How do I get into the rental business?"—I had to send them to Willie Talley or some other franchisor. I sent a few guys to Willie gritting my teeth because, at the same time, he would be sending out one of his periodic memos to his franchisees warning them against joining APRO or contributing to some fund or other when we were trying to raise money.

But even when ColorTyme and APRO were feuding, Willie saw to it that the fires got put out and the wagons stayed circled. In those early days, a strong well-placed legal punch might have knocked this industry out of existence. Sam Choate used to work for Willie. And Sam, on behalf of ColorTyme, and I, on behalf of APRO, did some vigorous lawyering

in Wisconsin, Iowa, Michigan, Washington, D.C., Connecticut and a few other places before there were any laws at all and before we were at all certain that the government was going to allow this nascent industry the chance to realize its potential.

If Willie had not supported those early efforts, we might not have made it.

Life is long, and not everyone in ColorTyme felt hostile toward APRO. Relations improved. People like Sandi Blackwell and Mitch Fadel and Steve Easley, and Mike and Joy Kent helped, although I'm not sure that Willie ever made it to an APRO convention. I made it to a couple of ColorTyme conventions, though, and I want to thank Willie for that. I spent an informative and fun-filled week in Hawaii once with the ColorTyme crowd, and another few days at the Phoenix Princess Hotel. I learned some things about having meetings for rental dealers from Willie Talley and ColorTyme.

The history of the ColorTyme franchise under Willie was colorful and rambunctious. Willie must have attracted fiery sorts, because his franchisees often were rebellious.

Occasionally, it would appear, to outsiders at least, as if the system was going to topple, but then, somehow, the grand ColorTyme ship would right itself and even surge forward. I always admired Willie's ability to weather these franchise storms. It cannot have been easy.

And, perhaps most of all, I admire the man for his vision. I'm not sure that if I had been retailing TVs in the late 1950s and started renting a few of them to my credit turn-downs that I would have understood that I was creating a brand new business that would one day support a franchise empire which at its height had over 500 units and its own private label brand of electronics.

Few people are possessed of the vision, the energy, the courage and the independence to embark on such an endeavor. Since I've been around the rental business, I have had the privilege of knowing a few people with that rare combination of talents that propelled them to the top of an essentially entrepreneurial enterprise, and Willie Talley was certainly one of them.

Willie Talley forged an industry, his own company and a corporate name and identity as strong and as recognizable as any. And he did it out of nothing. Many of us can recognize a good idea when we see and hear one, but a very few can create that idea from scratch.

A lot of people reading this owe whatever fame and fortune they possess to the strange alchemy that existed between the Talley brothers way back when—out of which was born this great, confounding business we are all in today. One of those brothers has left earthly fame and fortune behind and, we hope, gone on to much richer rewards even than a double digit pre-tax net.

I learned at the service that Willie was close to his children and much loved and respected by them. I didn't know anything about that side of Willie Talley, but I have seen my fair share of driven men who cannot balance the demands of empire building and family. They often die wealthy and unloved and alone. The testimony that day about Willie from his kids reminded me to be sure not to do that. I would remind some of you empire-building readers out there to be careful yourselves.

And so, Willie Talley, I bid you farewell on behalf of an industry you helped create and which owes you a lot. I and others will remember your contributions to the rental industry in America. They will not soon be forgotten.

*Ed Winn is APRO's legal counsel and veteran writer on industry issues.*

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the-store business pictures on demand and opening up new product possibilities, computers can serve a public relations function, says Rankin, by enabling stores to provide their customers with immediate, printed reports of their entire accounts. This objective accounting reassures customers that they are dealing with an up-front, honest operation, one for whom customer satisfaction and quality control are important. Such capability enhances the professional image of the industry as a whole, as well as that of the individual dealer.

#### COMPUTERS AS RENTAL PRODUCTS

This could be called Computers: Part II, because the computer as a rental product is the flip side of how computers fit into the rental-purchase business. Computers are big business and are much in demand. It is getting to the point where the average consumer is expected to have an e-mail address just as he or she was formerly expected to have a telephone. And everybody wants a license to drive the much-ballyhooed "information super-highway."

Adam Perkins manages The Rental Zone in Portland, Maine. His store has been renting computers for only about a year, but has 18 currently out, and that number is increasing all the time. Rental Zone has not advertised its computer line, but word-of-mouth has brought an ever-increasing demand. Perkins says that renting computers can be profitable, but it is important to pick your customer correctly.

"The down side to renting computers," says Perkins, "is the large cash outlay and the risk if the renter doesn't know how to use it." The service end can be expensive, but, he adds, "if your competitor is renting computers and

you're not, you are missing out on major revenue." Many of his customers are of long standing, but he is getting an increasing number of inquiries from people with home offices, who find rental-purchase an attractive option because they are paying for the equipment out of their own pockets and may be short on revenue as they set up their home businesses.

headaches for some dealers who ventured into computers early on that they got right out as the experience turned sour. Wagner points out that it is important to find the right supplier, but once you do, servicing should not be a problem. Many manufacturers offer on-site service or other servicing options, and some larger rental-purchase dealers employ their own technical staff.

**Even though computers are among the largest expenses a family can have, many families increasingly regard them as necessities, whether for the kids to use for homework and term papers, or for the adults to manage household and personal expenses or home businesses.**

John Wagner, who has been renting computers for several years through his three ColorTyme stores in Alaska and Hawaii, says, "If you're not renting computers, you're missing the boat." He believes the demand is such that he could rent out 50 if he had them, but the size of the outlay is a hindrance. "It eats you up in buying product," says Wagner, but he has substantial waiting lists at his stores as interest continues to grow.

Wagner's computer clientele includes business customers and individuals who have been his customers in the past. Customers are looking for high-end products, with CD-ROMs and plenty of preloaded software. Don Wagner, who manages the Alaska stores, says computers in rental-purchase "are to the '90s what furniture was to the '80s," an area with tremendous growth potential. Computer customers who rent from his stores run the gamut from novice to expert, but the demand is high and the waiting lists get longer.

Problems with servicing caused such

#### A PLACE IN EVERY HOME

Even though computers are among the largest expenses a family can have, many families increasingly regard them as necessities, whether for the kids to use for homework and term papers, or for the adults to manage household and personal expenses or home businesses. For some families, one computer is not enough, so we're talking major bucks here. If the household is among the significant percentage of the population who can't go out and make this large a cash expenditure, they may well choose rental-purchase to make the home computer a reality.

Feldser points out that many people are specifically shopping computers this time of year as Christmas presents. Tax time and the start of school also might offer some seasonal marketing conditions.

"Computers can be a tremendous growth area if they're done right," says Mark Blakey of IC Systems, Clearwater, Fla. "Because they are

Continued on page 36

## Who's who in computers

#### \* Computermax, Inc.

P.O. Box 3683  
Cleveland, TN 37320-3683  
(615)476-9148

#### ¥ Global Telephony Systems

P.O. Box 1005  
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#### ¥+ High Touch

1900 N. Amidon, No. 200  
Wichita, KS 67203  
(800)326-6059

#### ¥+ IC Systems/Leasing, Inc.

23494 U.S. Hwy. 19 N.  
Clearwater, FL 34625-1561  
(800)266-7332

#### ¥+ Ideal Software Systems

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Meridian, MS 39302-0110  
(601)693-1673

#### ¥ M&A Technology

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Dallas, TX 75244-4405  
(214)490-5803

#### \* Mountain Micro Computer

Center  
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Spruce Pine, NC 28777-0505  
(704)765-1574

#### ¥+ Renaissance Marketing

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Birmingham, AL 35209-1543  
(205)879-6986

#### ¥+ Rental Information

Systems  
834 Jeanette  
Magnolia, AR 71753-1165  
(501)234-2200

#### \*¥+ Rental & Sales Software

Systems  
457 Robert Dr.  
Corpus Christi, TX 78412-2454  
(800)334-5224

#### ¥+ RENTEK

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Austin, TX 78750-1836  
(800)9-RENTEK

#### ¥+ The Quantum Group

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(316)838-6484

The above list of computer hardware and software suppliers that cater to rental-purchase provides useful contact information. All are either APRO Associate Members (\*), advertisers (+) in APRO publications or APRO convention exhibitors (¥).

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# Judgment in Minnesota

Bad news for Minnesota rental-purchase dealers continues to erupt in their state. The Minnesota Supreme Court clobbered rental dealers there in 1994 when it ruled that rental-purchase transactions in the state were subject to both the state's rental-purchase statute and the consumer credit sale act. (See "Few Options in Minnesota," August/September 1994 *Progressive Rentals*.)

The most recent, unkindest cut comes from the pen of federal judge Michael Davis who, on Sept. 29, ruled in a case before him that all rental-purchase agreements entered into since Aug. 1, 1990, are consumer credit sales and are usurious as a matter of law, to boot.

*Fogie vs. Rent-A-Center, Inc.*, is a classic instance of a judge determining the desired result and then fashioning some law to suit his purpose. The ruling was disappointing to all but the plaintiffs and their lawyers, but not entirely unex-

pected. In 1994, when the state supreme court issued the *Miller* opinion, it also answered two questions sent to it by the federal court concerning the applicability of the consumer credit sales act and the Minnesota usury statute to rental-purchase transactions.

Even though their rental-purchase transactions were construed as credit sales and even though they know the usury statute was going to apply, the defendants in *Fogie* expected to be able to have a trial and put on evidence about the value of lease services, the difference between the cash selling price of the rental property and the total rental-purchase price, which was disclosed in the agreement.

Judge Davis ruled perfunctorily, however, that since the company had not itemized the different components of lease services with a value for each that, somehow, there is no evidence that customers agreed to pay for those services

and, therefore, there are no "reasonable, bona fide services" in the transaction and, therefore, the entire difference between the two prices is interest.

It is difficult to attack the logic of this reasoning; there is none. Without considering any evidence about the value of lease services, Judge Davis simply concluded that they have no value and, further, are neither reasonable nor bona fide. The judge accepted the proposition that the right to terminate the transaction has no value to consumers who want to rent long enough to own. The position ignores any distinction between being in debt and not being in debt. Indeed, the court concludes that "rent-to-own customers technically do not incur debt or an absolute obligation to repay a principal amount—rent-to-own customers for all practical purposes are in the same legal position as ordinary buyers on credit." Except, of course, that ordinary buyers on credit can have obligations accelerated and deficiencies taken against them; rental-purchase customers cannot.

The disappointment of this opinion is that this is a judicial recognition of the consumer-advocate argument that the rental-purchase transaction ought not be allowed to exist in the marketplace. If, by law, the value from the consumers' point of view of the rental aspects of the transaction is neither "reasonable nor bona fide," then the transaction cannot exist, because the costs associated with those elements of the transaction, from the company's point of view, are very real.

Letting consumers return merchandise whenever they choose has an economic cost. In testimony in the *Starks* case, an expert witness, testifying about a study conducted among lessors of automobiles, copiers,

facsimile machines and telephones, concluded that the premium added to a long-term lease for the privilege of terminating at any time was equal to 75 percent of the lease payment. For example, if a lease payment on a long-term lease were \$10 per period, the payment for the same period if the lessee could terminate at any time would be \$17.50. This conclusion was drawn from a survey of commercial leasing practices.

To conclude, as did Judge Davis, that this service, allowing termination at any time, has no value is simply to state that a rental-purchase transaction is indistinguishable from a credit sale. That is the unpleasant legal truth in Minnesota for the moment. Since the economics of rental-purchase and retail are so vastly different, the decision, if it stands, will mean an end to the industry in the state.

The judge, in his opinion, granted plaintiff's motion for an injunction and ordered the defendant rental company to stop doing business in the state immediately. A few days later, the judge reconsidered and decided to allow the company to continue its rental operations and also allowed the company to appeal the decision to the Eighth Circuit Court of Appeals immediately, even though the case has not been completely resolved.

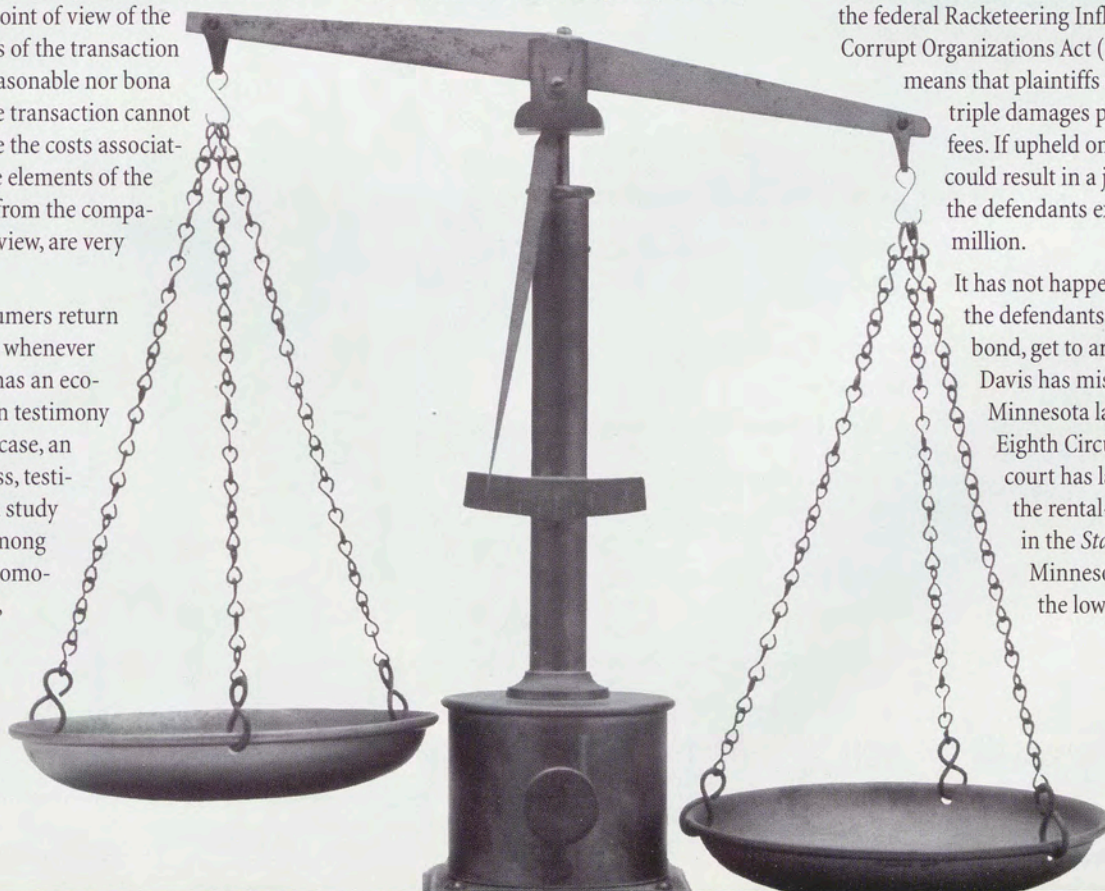
The case is not over because of the issue of damages. The judge issued a methodology for calculating damages, but also gave rental customers some choices about whether to keep the units they are renting. The class of plaintiffs includes all rental customers who did any business with the company since 1990, and most class members returned their units literally years ago. According to Judge Davis, all of these customers are entitled to the windfall of getting all of their money back. Likewise, current customers wishing to return merchandise can get all of their money back. Customers wishing to keep their rental property need only pay the cash price, and then they own it. Customers who have paid more can get refunds. Customers who have not yet paid the cash price can presumably continue paying rent until they reach the cash price and then quit paying.

The company has been ordered to notify all of their customers of this choice and pay for sending the notice. All refunds bear interest at the legal rate in Minnesota from the date on the agreement. The defendant estimates that the damages calculation as prescribed by Judge Davis may exceed \$33 million.

Finally, the judge ruled that the rental-purchase transactions in the case also violated the federal Racketeering Influenced and Corrupt Organizations Act (RICO), which means that plaintiffs are entitled to triple damages plus attorneys fees. If upheld on appeal, this case could result in a judgment against the defendants exceeding \$100 million.

It has not happened, yet, because the defendants, after posting a bond, get to argue that Judge Davis has misinterpreted the Minnesota law before the Eighth Circuit. This appeals court has lately considered the rental-purchase issue in the *Starks* case from Minnesota, and affirmed the lower court's ruling

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for the defendant rental company on all counts, *Starks vs. Rent-A-Center*. It is reasonable to expect some answer from the appeals court within the next six to eight months.

In the meantime, dealers in other states legitimately wonder what the implications of the *Fogie* ruling will be for them. Legally, the answer is not much. The Minnesota statutory framework which covers rental-purchase transactions, which is what the court interpreted, is so peculiar that the ruling should have no impact on the interpretation of any laws anywhere else. The Minnesota Consumer Credit Sale law is unique; the Minnesota rental-purchase statute is unique; the interplay between the two statutes after *Miller* is unique; the applicability of the usury statute to credit sales is unique.

However, if it seems clear that the decisions have little legal relevance beyond interpreting Minnesota law, the political implications may be more widespread. A federal judge has declared that lease services in rental-purchase transactions have no value. Rental critics can be expected to make as much as they can out of such a pronouncement. Consumer advocates can hardly point to the Minnesota

experience as a hallmark of thoughtful legislating, but they can be expected to argue that the Minnesota conclusion, however reached, is the correct answer to the rental-purchase issue in the country.

think they can make some money by doing so.

It is never good news when a judge misunderstands the rental-purchase business and

**It is never good news when a judge misunderstands the rental-purchase business and writes an opinion expressing that misunderstanding. The decision could cost the defendants a lot of money.**

Rental dealers should not rest on their laurels. They should instead be vigilant that the Minnesota story only be told in their states, if at all, as the aberration that it is. Most states, after all, are not accumulating large numbers of complaints by rental-purchase customers, and dealers must continue to ensure that complaints are resolved as quickly and as amicably as possible. Most other states do not have consumer champions who have made the eradication of rental-purchase their life's work. Other states, however, have attentive plaintiff's lawyers who will try to find some similarities between the *Fogie* law and facts and the law and facts in their states—if they

writes an opinion expressing that misunderstanding. The decision could cost the defendants a lot of money. It is important for the industry to stay organized and as unified as possible in the face of such judicial onslaughts. That is the best strategy for minimizing the impact of *Fogie* beyond Minnesota.

*Ed Winn is APRO's legal counsel and veteran writer on industry issues.*

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BY JOHN MASSEY

Some in the rental-purchase industry just can't figure out what Charlie Loudermilk is up to. The Aaron Rents chairman and CEO has a unique approach to rental-purchase, and some of his company's strategies are experimental and expensive.

R. Charles Loudermilk Sr. entered the rental business in 1955 with 300 metal folding chairs, for which he charged 10 cents per day. After building up a dominant rent-to-rent empire over the next three decades, Aaron Rents began easing into the rental-purchase field about eight years ago.

A publicly traded company since 1982, Aaron Rents looks to expand its presence in the rental-purchase arena in a big way, going after the largely untapped market in the suburbs. There are currently 104 company-owned Aaron's Rental Purchase stores and another 33 franchised stores. By April 1996, Loudermilk expects to open another 15 company-owned stores, and he expects to have 100 franchise stores by 1998.

At the end of 1994, the Aaron's Rental Purchase franchise operation was ranked as the No. 2 company on *Franchise* magazine's Gold 100 list. The Aaron's franchise fee is \$35,000, with start-up costs of about \$135,000.

As Loudermilk's rental-purchase company grows, so do his stores. The average size of rental-purchase stores industry-wide in 1994 was less than 4,000 square feet; the Aaron's expansion strategy calls for new stores with a minimum of 9,000 square feet, filled to the gills with a variety of furniture suites and other traditional RTO merchandise. When he can't find a large enough store to buy, Loudermilk says he will build stand-alone units with a unique Aaron's design. "We don't want to be hidden in the middle of a shopping center," Loudermilk says. "We want locations comparable to Blockbuster Video. You never see a Blockbuster store that is not very, very visible. This is a different industry approach. I don't know anybody in the industry who is building their own stores. We'll be building our own

Continued on page 42



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BY J.R. GANDY

# Artificial Intelligence

Neural nets, expert systems, fuzzy logic and rental-purchase. What's the connection?

If you're thinking this cutting-edge computer technology doesn't have any real application to you and your business, think again. Stay with this article a little longer, especially if you are frustrated with your investment professional, stock broker, money manager or brother-in-law—in short, anyone who may claim to have all the answers.

You've seen it in the movies for years: Terminator, Terminator II, Quantum Leap, Star Trek. That's Hollywood. But artificial intelligence is real and now, and there are no special effects.

Every time you use your Visa, MasterCard and American Express credit cards, you are taking advantage of artificial intelligence. Major credit card companies have intelligent computer programs that not only track your day-to-day card use, but can recognize a change in spending patterns. Such changes in spending can often be a signal that your credit card is in the wrong hands.

The medical profession has been using artificial intelligence to save lives, detecting cancer and other diseases in their early stages.

When tropical depressions and hurricanes

develop in the Atlantic and the Gulf of Mexico, this "smart" technology can predict with amazing accuracy the development of strength and probable location of coastal impact.

People's lives are influenced and saved from natural disaster and financial ruin on a daily basis by this smart technology that the industry refers to as artificial intelligence (AI). No, this cannot assist in your ability to communicate with your in-laws. Artificial intelligence is technology that allows computers to accept massive amounts of information in a non-linear fashion, access and evaluate it, and then formulate opinions on trends and learn from its own process of trial and error.

As investors, we have been doing this for years with little help other than a prospectus and the relevant historical performance and statistics available. However, phenomenal advances in computer technology over the past decade will now allow this process to be completed in seconds. Is it guaranteed fool-proof? Hardly. You've heard the saying: "Garbage in, garbage out."

So, what can artificial intelligence do for the typical rental-purchase dealer? It's simple.

With increasing competition and shrinking profit margins, it's more important today than

ever to make sure that your profits, retirement-plan assets and personal-investment dollars maximize their ability to make higher returns with as little risk as possible. It's important to make your money work for you, so that you can insulate yourself from suffering in times when it is hard to make a profit. Saving and making your investments work for you are the cornerstones of financial strength.

If you are so inclined, you can buy "intelligent" software from a number of vendors and create your own system. Or you can go with a proven financial manager who utilizes some or all of this technology in the investment-decision process. This software is advertised for commodity trading as well as other investment "styles" and can be loaded onto a personal computer with a modem for information access.

The do-it-yourself method is possible, but it can take plenty of time. The real key is the ready access to retrieve investment information and updates to existing data. Without a sound retrieval system/network, the best of the artificial intelligence technology will fail as the information is constantly changing in today's fast-paced markets. Obviously, your

Continued on next page

**Continued from previous page**

results are only as good as your information access. The costs of regular system upgrades can also make this an expensive and time-consuming hobby.

I've found that I don't have the time to dedicate to this process, and have delegated this task where possible.

There are many wise investment adages out there, but my favorite is: "The best way to make money in the stock market is to never lose it in the first place." There is a lot of truth to this simple saying as well as the more common one: "Buy low and sell high." Easier said than done.

In the beginning, investment firms' use of artificial intelligence was probably confined to the mega-sized accounts because of the huge research base necessary to support the system. John Deere Company has been using neural nets for years to manage its retirees' billion-dollar pension plan. Fidelity Investments of Boston, Mass., has a fund managed with input from artificial intelligence technology in house. Everyone seems to know how to pick a winning stock or mutual fund, but few seem to ever master the art of knowing when to sell it and protect the profits. Artificial intelligence can handle this decision-making process on an emotionless basis, providing the system has access to a continuous flow of investment information.

LBS Capital Management, Inc., a Florida-registered investment adviser, has been success-

fully utilizing artificial intelligence technology to not only influence investment decisions, but has completely relied on it since 1986.

Back in 1986, using artificial intelligence in this capacity was just a theory, and LBS had \$10 million for research and development. As it happened, the timing was right as the true test was almost instantaneous with the onset of Black Monday in October, 1987. Today, the company has more than \$600 million under management and is growing rapidly. Just more than 50 percent of the LBS money is from institutional investments, while the balance comes from small investors and small-business owners hoping to enhance their returns without taking additional risk.

An *Inc.* magazine 500-list company three years in a row, LBS has developed a system that is a dynamic, self-adapting decision mechanism that is programmed to be sensitive to ever-changing market conditions.

Says Dean Barr, chief investment officer for LBS: "One of the things which separates our systems from other computer systems is the dynamic nature of the artificial intelligence technology. It is inherently adaptable to changes in the financial markets."

This unique technology enables LBS to see through the complexities of today's markets. Every evening, LBS downloads more than 5,000 pieces of information from three satellites, and performs billions of calculations weekly to uncover relationships within the data that would otherwise not be apparent. The resulting decisions are objective, disci-

plined and highly risk averse. This approach to risk management is supported by research which suggests that:

- Financial markets contain patterns of predictability.
- Enormous amounts of data must be analyzed to identify those patterns.
- Advanced technology is the only means of performing such analysis.

"Money managers are suffering from information overload," says Barr. "Managers are able to use only a small amount of the information available to make their investment decisions. The technology we use allows us to utilize all available data and examine financial relationships more efficiently, quickly and accurately. Importantly, the decisions are unbiased and unemotional. It's much like getting a drink of water flowing out of a water hydrant that's wide open. We put a nozzle on the hydrant and make the information coming out of the hydrant usable and relevant."

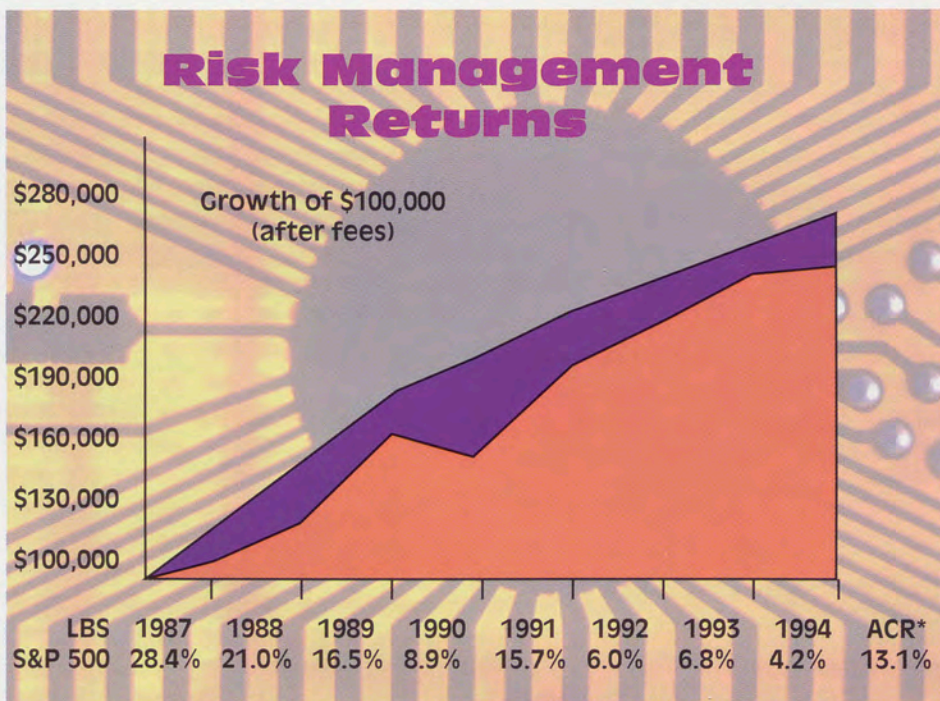
Using artificial intelligence in this manner is not a get-rich-quick scheme, but it may allow investors the peace of mind to keep focused on their primary businesses. The philosophy at LBS is to avoid 75 percent of the losses and participate in 75 percent of the gains. Sounds great, if you can do it. Does it work? Judge for yourself.

The investment application with LBS is anything from the selection and timing of mutual funds to asset-allocation management and individual managed-equity portfolios. Asset management fees begin at 2.25 percent for a mutual fund timing account of \$25,000 and 2 percent for a managed-equity portfolio with a minimal account balance of \$200,000. Asset management fees decline as the account increases in size.

Gary Blanchard, co-owner of International Mailing Systems Inc., is a trustee of his company's employee profit-sharing plan. He has used LBS services for management of a substantial portion of his company's plan assets since the late 1980s.

When asked what he considers the best aspect of working with LBS, Blanchard replies:

"They give me a secure peace of mind. I feel I have limited my fiduciary liability as a trustee for the plan without limiting its potential investment performance. Volatile markets are not a problem as they (LBS) direct my investment to cash to protect my



Source: LBS Capital Management

Continued on page 30



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# Quality RTO Reading

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

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

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Continued from page 28

principal when they feel the market is in a major decline. Plus the track record has been great for the little amount of risk that we it have been exposed to. I don't believe that we have had a negative year."

The LBS published track record is indeed impressive. LBS mutual fund market timing has averaged 13.1 percent vs. 11.8 percent for the S&P 500 net of fees from January 1987 to December 1994—and with about a 40 percent reduction in the market volatility (as measured by beta calculation) and no negative years to date. The greatest loss to date on a transaction was 6.9 percent. Currently the LBS record reflects that it has avoided 97 percent of the market losses and participated in 85 percent of the market gains.

Obviously, past performance is not a guarantee of future results, but it can demonstrate how the investment has performed in prior market cycles. Results are calculated on a time-weighted basis and reflect the reinvestment of dividends and other earnings and the costs and the advisory fees charged. Future investments, however, will be made under different economic conditions and in different securities and using different investment strategies. Furthermore, the performance discussed here reflects investments for a limited period of time. It does not reflect performance in different economic cycles. It should not be assumed that future investors will experience returns, if any, comparable to those discussed here. The information given is historic and should not be taken as any indication of future performance.

As an example of where this technology can assist in your mutual-fund investing process, let's take a situation where you may be invested in a volatile aggressive-growth type of mutual fund. Rather than ride the mutual fund down in value in a market decline or correction, if you retained LBS services, it would automatically take the aggressive growth mutual fund to its corresponding mutual fund cash account when the AI system registers a "sell" signal to a potential market decline or correction. This action can protect your profits or limit your losses depending on the timing of the signal.

When it registers a "buy" signal to a market building momentum, prior to a true rally, the system will then direct the cash-account balance back into the aggressive growth fund to potentially ride the pending market rally to a new level.

Since you are trading within a family of mutual funds there would not be any commissions or transaction charges associated with this type of transaction. This is also a great method of working with no-load mutual funds. LBS has a model that will choose the appropriate no-load mutual funds from a universe of no-load fund families available to it. These systems are not infallible and occasionally will register a false signal, though in the past it has not been wrong for very long. Remember that it's looking for the overall trend and should be judged over a period of time.

Usually the system will register four to six signals a year to take advantage of market trends.

You are probably already using computers extensively at work and home because they save you time, money and peace of mind thanks to their accuracy. If you spend any time at all on how to invest money for yourself or your employees, you should investigate this technology to see if it could possibly improve your bottom line. With the rising costs of employee benefits amid increasing concern over retaining good employees, opportunities to maximize investment returns should be explored for suitability.

Services such as these could eliminate a lot of the day-to-day headaches and decisions associated with ongoing management and administration. Almost everyone recognizes that the more time you have to spend on your primary business the better off you will be in the long run.

You can't take this to Las Vegas, but maybe it can take some of the Las Vegas gamble out of your investing program. Always consult with your tax adviser or other suitable professional on these issues. Read all the fine print; the prospectus, the registered investment adviser (ADV) form and any and all information that is relevant. And remember that past performance does not guarantee future results.

Above all else, make sure you understand and believe in the concept of your chosen manager's style. Look for consistency in performance in the investment manager's style and philosophy. Sitting in a cash position drawing minimum interest isn't a bad place to be if you don't have a plan to assist you in achieving your objective. Develop a plan, set your goals and be careful.

*J.R. Gandy has worked with RTO dealers since 1984. He can be reached at 1-800-959-3611.*

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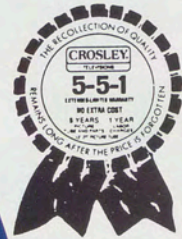
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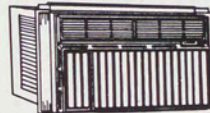
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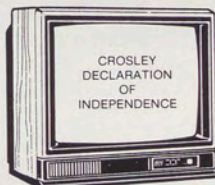


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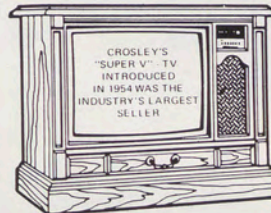
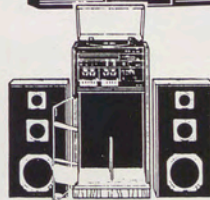
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"SUPER V" TV  
INTRODUCED  
IN 1954 WAS THE  
INDUSTRY'S LARGEST  
SELLER



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**1933**  
PATENTED  
FIRST SHELVES IN THE  
REFRIGERATOR DOOR

**TODAY**  
EVERY REFRIGERATOR  
LOOKS LIKE A  
CROSLEY SHELVADOR

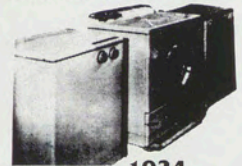
**1935**  
CROSLEY BUILT A RADIO  
IN THE REFRIGERATOR  
DOOR

CROSLEY FIRST AGAIN



**1934**  
WHEN PRESIDENT  
ROOSEVELT PUT ELEC-  
TRICITY IN RURAL  
AMERICA, CROSLEY  
FOLLOWED THE NEW  
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YEAR WARRANTY. IN  
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CROSLEY SHELVADOR  
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FOR THE WORD  
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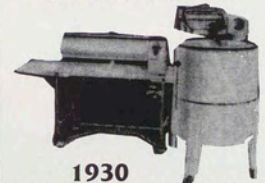
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AUTOMATIC HOME LAUNDRY



**1924**  
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**1937**  
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**1930**  
CROSLEY FIRST AGAIN  
INTRODUCED FIRST CAR  
RADIO CALL THE  
"ROAMIO"



**1930**  
CROSLEY FIRST AGAIN  
AIR CONDITIONED BED



THE "KOOLREST"

**1932**  
CROSLEY FIRST AGAIN  
FIRST REFRIGERATOR TO  
MAKE ICE WITHOUT  
USING ELECTRICITY



THE "ICY BALL"

---

# What the IRS wants

Rental dealers and their accountants who in 1987 switched their rental companies over to five-year MACRS depreciation when the U.S. Congress changed the tax law are probably feeling smug and clever these days in the aftermath of the *ABC* tax court decision and the recent issuance of Internal Revenue Service Revenue Ruling 95-52.

Both the court case and the rev. ruling advance the proposition that five-year MACRS (the acronym for Modified Accelerated Cost Recovery System) with nine-year AMT (Alternate Minimum Tax) is the only appropriate method for depreciating personal property held for rental-purchase.

All of the other rental dealers and their accountants who in 1987, or since, decided that they did not like the result of their operations using five-year MACRS and looked around for other plausible means of depreciating their rental property are feeling a good deal less smug these days.

Some are worried; less worried than they were before the IRS agreed to call rental-purchase transactions leases, but worried nonetheless. These dealers, when the tax law changed, simply continued to use straight-line depreciation methods which they had been using before Congress enacted the Tax Reform Act of 1986, in which was embodied the new and improved MACRS rules (improving upon the old

ACRS rules), and which repealed certain rules for reporting income from installment sales and repealed the investment tax credit law.

Other rental dealers found a statutory exception to the use of MACRS called income forecasting, historically used by the movie and film industries to depreciate certain costs of making movies over the anticipated revenue-generating life of those creations. In fairness to rental dealers, most of the depreciation methods adopted or continued after 1986 attempted to match actual expenses to actual revenues in the companies, which five-year MACRS clearly did not. Using a five-year system to depreciate rental property with a useful life to the taxpayer of only two, or at best three, years will always distort income considerably, at least in the first year.

Publication of the rev. ruling has raised a number of issues for the many rental dealers who are not depreciating their rental units using five-year MACRS. If it were merely a matter of the issuance of the rev. ruling, the choices would be clear: apply to the IRS commissioner for permission to change accounting methods and convert to MACRS, or prepare to challenge the rev. ruling in tax court in the event of an audit.

But those clear-cut choices have been complicated, first of all, because the *ABC* case is on appeal not in one but in two U.S. circuit courts of appeal. Either court could conceivably overrule the tax

BY ED WINN III

court and the rev. ruling, and authorize income forecasting for rental-purchase property. The issue is further complicated by industry efforts to have the tax code amended to allow rental-purchase merchandise to be depreciated over three years under MACRS instead of five. The interplay of those factors necessarily affect how dealers and their accountants evaluate what to do next.

Despite the confusion, a couple of things are clear.

First, it is clear that rental dealers can begin using five-year MACRS for new property placed in service for the first time without going to the commissioner to request a change in accounting methods. A rental dealer is entitled to adopt a method of accounting for new property when it is first placed in service. A dealer can do this regardless of the method of depreciation being used for other property already in service.

Second, rental dealers who want to start using five-year MACRS to depreciate property previously depreciated under some other method must apply for a change in accounting methods. This is so even when a taxpayer is changing from an "impermissible" method to a "permissible" method, and the rev. ruling itself makes clear that the commissioner's consent must be obtained. Dealers can apply for a change in method of accounting by filing form 3115 with the IRS along with an application fee of \$900.

There have been some initial discussions between industry representatives and the IRS about the issuance of an automatic accounting change for rental-purchase companies which would be published in a revenue procedure. Such a rev. proc. would allow dealers to convert from income forecasting to five-year MACRS without filing an application and without paying the fee. These negotiations may depend upon how many companies the

industry can represent will make the change. This, in turn, depends upon the outcome of the ABC appeals and the progress of legislative efforts to change the tax code.

A request for a change in accounting method must be filed during the first 180 days of the

was correctly decided and income forecasting is not an available depreciation method for tangible personal property under any circumstance, then there is little reason not to request a change in accounting method and take advantage of the payout. The only reason

**The IRS is unlikely to permit a dealer to switch from income forecasting to five-year MACRS and then later approve another switch back from five-year MACRS to income forecasting, even in the face of a court decision expressly approving income forecasting.**

taxable year. For calendar-year rental dealer taxpayers, it is too late to make the change for 1995.

Rental dealers who file a timely request for a change are entitled to pay out any deficiency resulting from the change over time pursuant to Internal Revenue Code Section 481. Proper election under this section would allow a rental dealer to pay out the deficiency interest-free over up to six years (or the period of time the dealer was using income forecasting, whichever is less). A timely request to change accounting methods also allows the dealer to avoid penalties for having under-reported income. However, the dealer loses this ability to pay out the deficiency over time if the request to change is filed after the dealer gets notice of an audit.

A dealer unconcerned about the outcome of the ABC appeal and anxious to take advantage of the opportunity to pay out the deficiency over time and avoid the possibility of penalties could go ahead and file now to request a change beginning in 1996.

To some extent, a rental dealer's decision depends upon one's view of how ABC will ultimately be resolved. If the view is that ABC

for delaying would be to see if an industry-wide rev. proc. providing for automatic approval of the change is on the horizon in order to avoid paying the \$900 fee.

If, on the other hand, the dealer is persuaded that ABC was wrongly decided and that income forecasting will ultimately be validated as a depreciation method for the industry, then the dealer probably wants to sit tight. The IRS is unlikely to permit a dealer to switch from income forecasting to five-year MACRS and then later approve another switch back from five-year MACRS to income forecasting, even in the face of a court decision expressly approving income forecasting.

The risk, of course, is a bad bet on ABC and the loss of the payout and the certain avoidance of penalties by not making the request for a change before notice of an audit.

It is difficult to handicap the ABC case. There are strong, technical legal arguments on both sides. However, for dealers wishing more information about how to evaluate ABC, there are copies of the stipulation of facts and all briefs that have been filed in the case. They are available to association members through the APRO office.

*Ed Winn is APRO's legal counsel and veteran writer on industry issues.*

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Continued from page 17

often the largest dollar-value items in the store, you have to be careful who gets them, so the screening policy should be different."

Technical support is important, too, says Blakey. IC offers its customers various service options so that each company can contract for the kind of technical support they need.

Feldser believes that as dealers become more comfortable with computers, and more familiar with what they can do for a business operation, they become "addicted" to the information available to them. "The more information he gets, the more he wants," says Feldser. The result is a constant upgrading of in-house computer hardware and software, which boosts business for vendors and constantly challenges them to supply what the industry demands. The best part, says Feldser, is that you get a lot more for your dollar these days in terms of what the computer can do and how fast it can do it.

Rankin of RENTEK in Austin, Texas, supplies

both hardware and software to the rental-purchase industry. He gained his expertise when he ran 10 rental stores. Rankin believes RENTEK's purpose is "to enhance a dealer's ability to do business in a professional and speedy manner." Dealers, he says, have come to regard the computer as an integral management tool that can provide valuable operational data quickly. IC Systems offers on-site support to Rent-Way in Erie, Pa., and Syracuse, N.Y., among RTO operations.

"Software packages are a work in progress," says Burke Sisco, vice president and marketing director for Rentaissance, Birmingham, Ala.

Whereas much of his work as a consultant involves basic account management and setup of new rental-purchase stores, Sisco says he expects software to improve constantly, and to continue to enter new and different areas of store management, such as electronic instruction manuals.

The rental-purchase customer, Blakey agrees, expects computers to come loaded with soft-

ware and, in compliance with copyright laws, precisely worded forms accompany the rental contract to explain that it is the hardware that is the rental product; the software is provided free of charge. Blakey also suggests that computers as a rental item could attract a highly educated, higher income segment of the population that had not previously had a need for rental-purchase.

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*Barbara Stooksberry is a freelance writer and editor who has contributed to Progressive Rentals since 1989.*

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# Ethics—a valid APRO concern

*Ethics: principles of morals and conduct governing an individual or a profession.*

—Webster's Unabridged Dictionary, 1983

*"Members shall develop and encourage the practice of high standards of personal and professional conduct among themselves."*

—APRO Code of Ethics

Although BORs and bottom lines consume the thoughts of most rental dealers most of the time, the behavior of the industry and its members has also always been a concern. Certainly not all rental dealers are concerned about ethics. However, many do care about these kinds of things, generally because they are people with character and who care about the image of the business they are in, particularly.

There have been long been stretches when industry representatives have been more concerned with keeping rental-purchase viable against attacks on different fronts than with contemplating ethical issues that face this industry. When Henry Gonzalez is trying to put you out of business, you focus on Henry and not the guy down the street who is trying to steal your store manager.

But in moments of relative calm, ethical issues bubble right to the top of rental dealer discussions, perhaps because of the very nature of the business.

It may not be the case that rental-purchase dealers are any less ethical on the whole than other business people, or politicians, or lawyers, or doctors, or preachers, or anyone else. The importance of ethical issues to rental dealers as opposed to other groups is that, historically, unethical behavior by a single dealer, (and, in truth, it has also most often been illegal behavior) has had a ripple effect and caused damage not just to the unethical actor but to the industry as a whole.

Many in the industry live with the heightened awareness that isolated ethical lapses by a single person or in a single company can have widespread repercussions. If that were not the case, rental dealers would probably ignore the shenanigans of competitors and let the marketplace or the government do their cruel work of punishing wrongdoers.

It is nothing more than self-preservation, finally, that causes rental dealers to look over their competitor's shoulders, and it is the

same reason that lawyers and doctors and other groups do the same thing as well.

The conclusion of the association leadership at a recent meeting was that industry members need to do more looking over shoulders, not less. The time has passed for rental deal-

the opportunity to appear before an impartial tribunal to present evidence, and confront accusers.

Peer pressure, the approval or approbation of one's colleagues and competitors, has worked after a fashion until now. But if the industry

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**Many colleges and universities have simple honor codes for their students: "I will not lie, cheat or steal, nor tolerate those who do." Why is it not a breach of the APRO Code of Ethics when association members who know of rental dealers who are violating state rental-purchase statutes fail to report such matters to the association?**

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ers to look the other way when they see other rental dealers committing unethical acts. The debate is ongoing about the ethics of certain aspects of the business—filing criminal charges against rental customers, for example. But some behavior—violating state rental-purchase statutes, for example, is clearly unethical and, well, illegal. The association is newly committed at this stage, to ferret out legal wrongdoers while continuing the debate over finer ethical issues.

Many colleges and universities have simple honor codes for their students: "I will not lie, cheat or steal, nor tolerate those who do." Why is it not a breach of the APRO Code of Ethics for association members who know of rental dealers who are violating state rental-purchase statutes to fail to report such matters to the association? There is an ethics committee established to deal with such problems.

Alleged wrongdoers will first be contacted informally by the committee. The association leaders are persuaded that few rental dealers are violating rental-purchase statutes on purpose; most violations are inadvertent and will be quickly corrected as soon as they are pointed out.

Beyond that, the association has always had a procedure for terminating membership. The APRO Ethics Committee intends to invoke this process if informal calls and visits cannot correct reported violations of state rental-purchase statutes. The procedures comport with due process notions of fair play and include notice of the alleged violations and

and the association are to move forward, then more pressure must be brought to bear on any dealers who cannot at least comply with their state rental-purchase statutes.

If you become aware of violations in your markets, please call Arkansas dealer Charles Cloud, chairman of the association's ethics committee, or the APRO office. The ethics committee has lately resolved to act quickly and decisively on all complaints. If you get a call about something you are doing wrong, stop and listen to the complaint. If you are wrong, fix it.

All of us want a better industry. We will never have one if we do not move together to get all participants to follow the very laws we have worked so hard to get enacted.

—Ed Winn

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Owners Ken Bales, left, and Ernie Lewallen, right, welcome former Major League Baseball star Al Oliver to the grand opening of United Household Rentals store No. 7 in Maysville, Ky.



Fleming County cheerleaders participate in grand opening of UHR store No. 7.

# Creative promotions

**C**reative store promotions and community relations. The two go hand in hand. Just ask Cincinnati-based United Household Rentals co-owners Ken Bales and Ernie Lewallen.

When Bales and Lewallen opened store No. 7 in Maysville, Ky., Sept. 29-30, they got the biggest bang for their promotional buck. They had former Major League Baseball star Al Oliver on hand for the grand opening weekend. They also had pro football's Cincinnati Ben-Gal cheerleaders there, along with local high school cheerleaders. Even better, all proceeds went to local charities.

Store manager Cynthia Ruf says: "Sports are a big thing in rural communities, so having the cheerleaders and Al Oliver was a big draw. This concept went over very well."

Even though Maysville, Ky., is about 50 miles southeast of Cincinnati, Bales and Lewallen



**Local high-school cheerleaders serve as ambassadors to UHR customers and their families, above, while co-owner Lewallen talks with radio personality during grand-opening weekend.**



got into the act. "I wasn't expecting them to put as much effort into the grand opening as they did," says Ruf of her bosses.

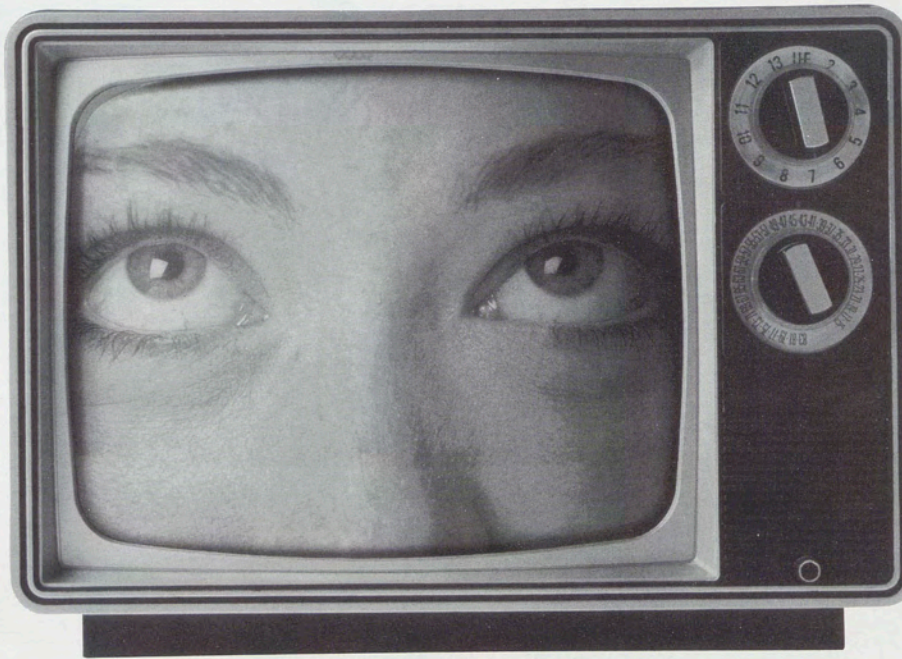
All proceeds from celebrity-photograph signings went to Tom Browning's Boys & Girls Club and the Fleming County Cheerleaders. UHR also paid corporate participant Kroger for the food that was provided free to customers and visitors. Kroger, in turn, donated those proceeds to Santa's Kids, a local children's Christmas fund.

Ruf, who is new to the rental-purchase workforce, says she feels good about top management's commitment to UHR customers and their families.

"They're very big on local participation and community relations," says Ruf. "They're showing this business is about people—local people—and not just an industry."

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# Relationships



Public relations can mean a lot of different things, depending on who you ask. To some, it is Joe—the flashy guy with the big expense account who spends most his time wining and dining clients, or politicians.

To others, it is Suzy homemaker, who volunteered to handle publicity for the local charity ball.

While these are both valid functions, the stereotypes are outdated.

Today, public relations is about proactively managing and maintaining public relationships. The theory holds that if you build good relationships for yourself, cause or group with your various publics—those groups that have some stake in what you do—life will be a whole lot better.

The rental-purchase industry has learned the value of building good relationships with stakeholders in the U.S. Congress. The successes since Henry B. Gonzalez and the spring of 1993 have been well docu-

mented in this magazine. APRO dealers turned things around through grassroots education.

Rental-purchase's

next big challenge is public relations. Still, you may ask, what does that mean for us?

It means a national media campaign, with television and radio spots, and print materials that can be customized with local RTO companies' names to support marketing aims.

It also means a network of dealers doing good works in their communities—and getting credit for it in the media through a coordinated effort with APRO and charitable organizations.

Here's a brief look at APRO's two-prong strategy for the coming year:

## IMAGE ADVERTISING CAMPAIGN

A plan is developing to have APRO produce a television commercial, and provide it free to members who can then add their own taglines and insert the spot in their regular advertising rotations.

The idea of producing a national TV spot has been kicked around within the industry and the association for years. But only recently has the idea begun to take shape. Ernie Lewallen, APRO board member and co-owner of Cincinnati-based United Household Rentals, has been leading the charge for the association.

As chairman of APRO's public relations committee, Lewallen believes a broadcast-quality, attention-grabbing and entertaining commercial will ultimately help rental-purchase dealers restore lost BOR and build a wider customer base.

Using the latest technology—stop-motion animation, a technique employed in Coca-Cola's popular polar bears spots—the industry's spokesman will actually be an animated, lovable canine named "Gus," who finds happiness through rental-purchase. Gus is a character created for APRO by Walt Disney animator Michael W. Johnson and Richard May, APRO public affairs director.

"This industry has allowed our opponents to define our industry for the past 15 years," Lewallen said. "A national marketing and public relations campaign based around a television commercial has been very successful for other industries and I believe our

industry can enjoy similar success. I believe this industry, through APRO, can dictate its future and its business with a campaign that will boost our image and our profits."

During APRO's convention in August, Gus and the commercial idea were unveiled to test the response of association members.

By the end of this year, APRO will conduct a comprehensive survey of its members to determine their advertising methods so the campaign can be tailored to member-dealer needs, according to May.

May says APRO will, depending on survey results, provide other advertising materials featuring Gus which can be customized for individual dealers' use. These can include print ads, point-of-rental displays, etc.

For more on APRO's national image advertising campaign, see "APRO goes commercial," August/September *Progressive Rentals*, page 6.

### COMMUNITY RELATIONS

A coordinated community relations program will comprise the second major thrust of the overall strategy, according to May.

"The real point here is fostering relationships by participating in the communities where we do business," says APRO's May. "Giving something back is a reward in itself. However, it is

also important to work with local charities and encourage them to tell the rental-purchase story."

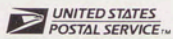
Ever been stumped on which charities to support? May recommends asking your customers about their community concerns to help identify the most appropriate organizations for forging partnerships.

In the coming year, APRO will further develop practical tools to help dealers and their store personnel deal with the media, and provide real-world examples of successful community relations activities for RTO companies.

Also, May intends to take the knowledge gained from the association's highly successful political grassroots campaign and adapt it to track—and promote—dealers' community relations projects.

Concludes May: "Over time, coordinated community relations efforts across the country will create a better political and business climate for the industry."

*(Editor's note: Look for more in the next issue, December 1995/January 1996, on APRO's image advertising campaign and community relations efforts.)*



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(See Instructions on Reverse)

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6. Item 17 must be signed.

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PS Form 3526, October 1994 (Reverse)



Continued from page 23

10,000- to 12,000-square-foot stores. We are not a little shop in the middle of some down-trodden shopping center. We are going to bring this industry to the forefront and force people to see us."

With the move toward the suburbs, Aaron's Rental Purchase division has seen a change in customers' spending habits. Industry-wide, more than 58 percent of rental-purchase agreements are renewed on a weekly basis, according to APRO's 1994 Annual Statistical Survey. A 78-week (18-month) term is the norm for payout on new merchandise.

Aaron's, which touts a 12-to-own program almost exclusively, has fewer than 20 percent of its customers paying on a weekly basis. On large-ticket items, Aaron's offers terms longer than 12 months.

"If you segment the population by economics, (the rental-purchase industry) has worked with the lower 30 percent, which I think has now grown to 40 to 50 percent," says Loudermilk. "The lower economic group pays weekly. We have eliminated the vast majority of those customers from our market. I think we are dealing with a little higher-income customer."

In the inner-city and other lower-income markets, Loudermilk says customers can usually afford to pay from \$40 to \$50 a month for products. Other rental-purchase companies are serving that market's needs. As his stores have moved toward the suburbs, Loudermilk says he's found a customer base with more disposable income, which works out to be approximately \$105 a month.

There are trade-offs, but Aaron's manages to stay well on the positive side of the equation. With higher-income customers comes the demand for a much wider variety of merchandise, which means bigger stores and much more inventory. But much of the Aaron's floor space is filled with furniture, and most pieces are made by Aaron Rents-owned MacTavish Furniture Industries, with five manufacturing plants in Georgia and Florida. Conducting mostly monthly transactions, rather than weekly, also drops operating costs considerably, according to Loudermilk.

The Aaron Rents CEO says his stores are also



attracting more and more customers because of the company's low rental rates. Loudermilk says he keeps the prices lower by refusing to squeeze every possible cent of profit from his customers. Aaron's sets its desired profit margin ahead of time, and then strives to meet that goal.

"We would like to play a game with ourselves to see how cheaply we can rent something and still make our desired profit," Loudermilk says. "We know that if we can rent the product cheaper, we are going to have a larger group of people willing to rent. The Sam Walton philosophy with Wal-Mart is similar. The main reason for his success was, when he was able to get a 5-percent discount from his supplier, instead of trying to bring it to his bottom line, he cut the cost of the product 5 percent. That snowballed. Before I ever even heard of Sam Walton, I had the philosophy of 'let's see how cheaply we can rent something and still make the desired profit.' You have to set a (desired) profit."

With the low rental payments, lower eventual purchase prices and 12-month terms, industry opponents and even industry insiders may think that Aaron's has a booming keep rate, thus pushing the envelope on the sale-vs.-lease question. Not quite. No matter what the rental rates and length of the terms, Loudermilk says he has never seen his company's keep rate exceed 10 percent above the industry average of 25 percent to 30 percent. That seems to prove the industry's age-old claim that one of the most attractive and valuable parts of the rental-purchase transaction is the consumers' freedom to return mer-

Continued on page 44



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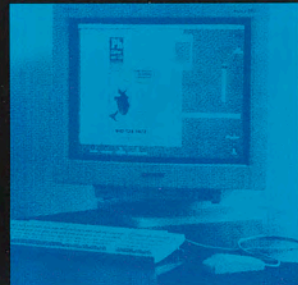
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Continued from page 42

chandise when they want.

"I think 30 to 35 percent (keep rate) is as high as it will ever get," Loudermilk says, adding that Aaron's finds 82 percent of that customer base returning to rent another product. "A lot of (rental dealers), their ideal customer is one who keeps the item half of the term and brings it back, so they rent it to somebody else who rents it for half the term. What we want is to be the supplier of the necessary household goods to this family forever. Our critics were saying that when the people go to term, you've lost them. It just doesn't happen with us."

A main factor for the return business may be the Aaron's philosophy on customer relations. Ken Butler, president of Aaron's Rental Purchase division, sees a bright future for the growing company and for the entire industry.

Says Butler: "The best philosophy we have is that we feel like our customers need us. We feel like we're doing the market a disservice by not being there. I think the industry looks great. No longer do you have the under-funded players, who are financed up to 150 percent. They're gone, and the good operators have survived the credit crunch. I think you'll see continued consolidation in the industry, and there will be probably four or five major players. There's still room for the little guy, and I think our franchise program is something that can lead them down a straight and narrow path. We've been there and done it."

Like Loudermilk, however, Butler says the key to success in the industry is serving the customer. While Aaron's continues to add strategic franchising partners and acquire other RTO chains, Butler is struggling to find the quality management to get the stores on-line.

"How many more stores can we add?" Butler asks. "Just look at (1,300-store) Rent-A-Center's numbers, and they're still adding them. You can look at the Renters Choice deal. He (CEO Ernie Talley) is improving old-line, traditional rent-to-own stores just by cleaning them up, providing inventory for them and bringing some systems in. It seems to be going well.

"But you can't outgrow your people. No matter how good your prices are, and no matter how good your showrooms look and no matter what type of investment you have, if you don't have the people to run them."

A bad manager can make any situation bad, according to Butler. Over the past year Aaron's has been searching for outstanding help and

it is training multi-unit managers in cities where stores haven't been opened yet. New Aaron's managers begin with a \$40,000 base salary, Loudermilk says, a good bit above the industry average of about \$33,500 for managers in large chains.

Butler adds: "It's the people who drive the business. I meet with our managers on a regular basis, and going around the room, I can see most of our management team was pro-

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**We discovered that we could operate in the rent-to-own segment both ethically and profitably. In that order, too. Ethically first and profitably second.**

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moted in a very short period of time. I wish they could stay in the oven a little bit longer."

Another characteristic of Aaron's that is a rare trait in the business world is its willingness to admit mistakes. Both Loudermilk and Butler are quick to admit they have made mistakes. One of Loudermilk's examples is that he only gave a passing glance to the videotape-rental business back in that industry's infancy.

"Frankly, I missed the boat there," Loudermilk says. "Why isn't Aaron Rents in the tape rental business as big as Blockbuster? We certainly had the opportunity, but I just didn't see it. Charlie Loudermilk just didn't see that opportunity. I thought the rental transaction was just too small. By the time we got through with all of our computers, it would cost us \$5 to write the ticket. I saw problems with tape maintenance, and I thought that cost would be too high. They proved me wrong."

Butler says he has to watch for the many mistakes that can occur when any company is on a quick-growth pace. He says there is always the danger of speedy growth hiding errors and system flaws.

"We're going to add a lot of stores, but I'm not going to let a store hang out there to dry," Butler says. "If we give it a good shot and it's not working, we're going to close it. We're going to give stores a fair chance to make it, but just like in bass fishing, I'm going to pick up the boat and go to a pond where the fish are biting. We can't let the number of stores drive our business and let our egos get in front of that."

At this point in Loudermilk's career, many would think he could sit back and relax. In his large comfortable office atop the 11-story Aaron Rents building in Atlanta's up-scale Buckhead neighborhood, Loudermilk is sur-

rounded by evidence of his success. On the walls hang pictures of Loudermilk meeting and socializing with former U.S. Presidents Carter, Reagan and Bush. Several shelves are crowded with plaques and trophies honoring his involvement with dozens of civic causes in the Atlanta area. Amid photos of family and friends are aerial photos of his sprawling ranch. As conversation begins, however, it's quickly apparent that Loudermilk's thoughts

remain mostly on his business operations and on the health of the rental-purchase industry.

Says Loudermilk: "I think we've been fortunate that we discovered that we could operate in the rent-to-own segment both ethically and profitably. In that order, too. Ethically first and profitably second. I've seen this business for a long time, and we came up with a program with the full disclosures and pricing that we feel very, very comfortable with, and that we are treating the customer with respect with our prices. In all aspects, we are running our business as an ethical, upstanding and quality business."

Aaron Rents began slowly in the rental-purchase business on purpose, Loudermilk says. Much time was spent in studying customers, experimenting with the 12-to-own concept and learning from mistakes made by other industry dealers. As the rental-purchase industry has matured over the years, Loudermilk thinks it has established a valid niche in the market.

"For a number of different reasons, the industry and the industry players and operators have been more and more conscious about their treatment of the customers, from the pricing standpoint and from just a basic ethics standpoint," Loudermilk says. "APRO, as an organization, has started to publicize the fact that all of us should be operating ethically. That's very, very good.

"We know that the demand is there for the product, but now it's a matter of satisfying that demand in a fashion that doesn't embarrass the industry. Unfortunately, it's an industry that has to be monitored closely."

Loudermilk says it would be easy for members of the industry to take advantage of customers, who often are limited in their pur-

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chasing options because they are either strapped for cash or they have a poor credit history.

"You are dealing with the under-served, and they don't have the ability to go out and competitively shop, whether it's for a cash purchase or by using a credit card," Loudermilk says. "We, as a group, have to be very firm that that's not acceptable behavior by the members of APRO and anyone else in the industry. We need to police ourselves, just as the American Bar should police its members and the American Medical Association should police its members. I think the national association must take the lead role in that."

Over the next few years, Loudermilk will also be working to secure an industry leadership role for his rental-purchase division. When Aaron Rents cannot find stores to acquire, it will purchase land and build stand-alone units. The company's franchise department is also sorting through stacks of applications, looking for healthy partners. Many of the franchises most recently awarded by Aaron Rents have gone to traditional furniture chains or experienced retail franchisees.

How bright is the future?

"I think our balance sheet is as strong as just about anybody's in the industry, which allows us to expand," Loudermilk says. "Our debt today is about \$15 million less than it was a year ago, and we are using less than one half of our available credit with the bank. What that says is two things: No. 1, we haven't expanded as fast as we should have in the last year. We haven't grown internally or by acquiring stores. It also says that we have a line of credit of about \$35 million to make acquisitions, if we see some that would be advantageous."

Aaron Rents, traded on the NASDAQ under the ticker symbols ARONA and ARONB, reported record revenues and earnings on Oct. 26, from the second quarter and first six months of its fiscal year. Net earnings were up 28 percent (to \$3.2 million) for the second quarter and up 27 percent (to \$6.5 million) for the first six months, marking the 16th straight quarter of record earnings. Aaron's Rental Purchase division was a big part, with its revenues increasing to \$22.5 million for the quarter, up 24 percent from \$18.2 million for the second quarter last year. Systemwide revenues, including franchises, reached \$27.3 million, a 30-percent increase from last year.

John Massey is APRO's associate editor.

# APRO PUBLICATIONS

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<b>APRO's Who's Who in Rental-Purchase</b> (Available to members only)	<b>\$25/na</b>
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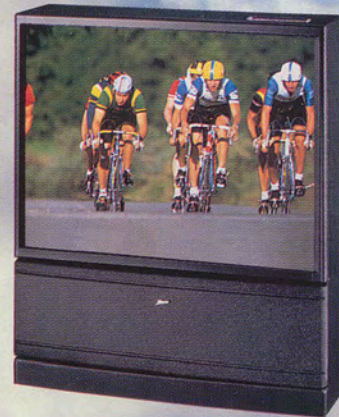
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