



The Rent-to-Own Industry: A Great Industry That is Misunderstood

By the RGCO Rent-to-Own Committee

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How We Became Involved in Rent-to-Own

Our firm, Rivero, Gordimer & Company, P.A., is a full-service CPA and advisory firm located in Tampa, Florida. We were first introduced to the rent-to-own ("RTO") industry over 20 years ago when we represented a family estate after the passing of the patriarch. That patriarch, Norman "Slats" Slatton, was one of the founding fathers of RTO in the United States and had managed to build one of the largest privately held RTO businesses in the country.

Over the course of the next few years, we worked closely with the family by providing proactive strategic tax and estate planning advice. Our relationship evolved over time as the business's President, Joe Gazzo, and Slatton family members began asking for business advice. Through these interactions, we were introduced to RTO, which we quickly learned was unique and operated quite unlike any other industries we represented at the time.

Eventually, the Slatton's business hired RGCO to represent their business as well. Luckily for us, the company employed "the godfather of RTO accounting," Mr. Terry Beville, who had been involved not only with their company, but also with national organizations such as the Association of Progressive Rental Organizations (APRO) and The Rental Industry Buyers (TRIB) Group. Needless to say, Beville was very well respected and taught us a lot. Thank you, Terry, for your patience and knowledge.

Once we had a better understanding of how the business worked, we were asked to take the next step – attend a trade show and try to help some of the non-corporate rent-to-own store owners. Since then, we've attended shows annually and RGCO has supported the industry in a full court press. As they say, "it takes a village," and we've received plenty of help, introductions, and encouragement along the way from many people.

RGCO currently represents franchisors, franchisees, and independents across the country with a total combined store count in the hundreds. We have formed an RTO committee at our firm made up of shareholders, CPAs, and advisors who are committed to keeping up with the industry. We are an approved TRIB vendor, APRO associate member, and Florida Rental Dealers Association member; are represented on the APRO Vendor Advisory Council; and are an APRO Board liaison. Yes, we love this industry and are very involved at many levels.



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What We've Learned About RTO



Through the years, we've been fortunate to work with many amazing business owners, employers, and just great people. Some of us have even become RTO customers. We've also learned about the public perception to the RTO industry as a whole. We would like to share some of what we've learned, not necessarily for those in the industry, but for those not in the industry who can benefit from the education we have been fortunate to receive throughout the years.

Simply put, historically the RTO industry has rented household appliances, furniture, electronics, wheels, tires, and other consumer durable property mainly used within a home or household to a sector of the population that is economically challenged, some who may eventually want to own these items. These consumers may have less access to credit or need more flexible terms associated with their financial commitments.



However, they still would like some of the comforts of home: to watch TV, sit on a couch, sleep in a bed, and wash their laundry on their premises, instead of at a laundromat. They may not have the credit to buy these products outright or may not be comfortable entering into a financing arrangement.

Some of these consumers may have employment that is short term or uncertain, meaning that renting these items would be more suitable to their needs. This doesn't mean they want used furniture, appliances, or washing machines. They just prefer flexibility.

In addition to the economically disadvantaged consumer, many young professionals and newer consumers do not want long-term financial commitments. A recent [Rent.com](https://www.rent.com) survey of 1,000 renters between the ages of 18 and 34 found that the vast majority of them (nearly 8 out of 10) don't plan on trading their apartments for homes anytime soon. Some younger professionals who have caught the travel bug move to new cities every few years and shipping personal items can add up financially.

The RTO industry serves all these consumers.



What RTO is and How it Works



The RTO concept is considered to have originated in the United Kingdom in 1933 as a means for the public to acquire a necessary household appliance—the radio. The RTO concept eventually came to the United States in the 1960s. Individuals cited as key figures in the history of the rent-to-own transaction and application as a business model include Charles Loudermilk, Sr., who in 1955 began renting out Army surplus chairs and later founded Aaron

Rents, and J. Ernest Talley, who started Mr. T's Rental in Wichita, Kansas in 1963, and later helped establish Rent-A-Center. As of 2020, the \$8.5 billion RTO industry continues to grow.

Let's explore what a typical RTO transaction looks like. First, an RTO transaction is not a traditional purchase transaction through credit or financing; the consumer is not borrowing or leveraging money to purchase merchandise. RTO is a marketplace in which consumers can acquire durable goods at a price that will fit their budget and needs. It supplies consumers with other options that are otherwise unavailable.



In an RTO transaction, a consumer is renting merchandise from the RTO dealer for a specified period or term for an agreed-upon regularly scheduled (weekly, biweekly, monthly) payment. If the merchandise is retained by the consumer for the full term of this agreement, the merchandise then becomes the property of the consumer; the consumer would then own the merchandise. If they do not retain it for any reason, there is no penalty.



Interest is a charge assessed at a rate for the use of or privilege of borrowing money or property common in a lending transaction. But there is no interest charged in an RTO agreement. There is also no conditional purchase or commitment by the consumer. There are no over-arching Federal laws defining the RTO transaction, but there are state statutes. This leaves the battleground open between opponents and proponents at the state level. Many state legislators understand the importance of these transactions to meet consumer welfare needs. The RTO industry does its part to educate those in office of the benefits it brings to consumers at both federal and state levels.

About the Industry



Perception

The RTO industry faces ongoing criticism due to the perceived business practice of overcharging consumers. Opponents of the industry argue that RTO agreements are disguised as installment sale contracts, which are harmful since they allegedly impose usurious interest rates, and that RTO dealers target and exploit uneducated consumers (including those in the military)—some with

credit problems—which results in these consumers paying two, three, or even four times the value of the products. The term “predatory financial product” has been used by some opponents, which include Consumer Protection advocates and Better Business Bureaus. There is a stigma surrounding the rent-to-own industry that we would like to address.

Let’s examine the myths behind these assertions. By the end of this paper, we hope you will understand there is a cost and risk in providing a consumer the benefits and flexibility RTO provides. RTO dealers do run businesses that can be profitable, yes, as any other for-profit business. But since there is a cost and risk in providing the service they do, there is no reason they should not be able to be profitable. Additionally, we will demonstrate how the risk in these transactions is taken on by the RTO dealer, and not their consumers.

Most businesses want a profit—it’s generally why a business is started in the first place. RTO is not any different. The general nature of profitability is that revenue must exceed the costs of the business. Running a capital intensive, leveraged business requires excellent management skills. Not only does a manager have to maintain proper levels of store inventory and provide service to customers in need, but they also must maintain a higher level of “client” relationship with each individual. Throughout the recent pandemic, this could not be more critical.

The same folks making the argument that RTO consumers are overcharged and misled likely also buy a cup of coffee each morning from their favorite barista instead of purchasing an entire bag of coffee for the same price at a grocery store. However, this transaction is revered and is culturally cool. For an RTO consumer, that amount of money could help pay for multiple contracts a week that could help fill their living room with furniture and wash their clothes.

Consider this: think of everything consumers rent (or lease) every day—cars, phones, apartments, houses, vacation lodging, parking spaces, household tools (carpet cleaner, anyone?), and even formalwear. Why is renting new, durable products held to a different standard than the items we rent regularly? While previously rented and refurbished products are available to consumers, the purchase details we see indicate the majority of products being consumed are brand new. These products are acquired from highly reputable wholesalers and retailers serving all consumers.

The RTO industry will not deny that it may be more costly to the consumer to acquire products under the RTO model compared to straight rental. However, comparing the two is not a fair comparison. Under an RTO agreement, the consumer can eventually own the merchandise or walk away with no penalty.

You cannot compare rent-to-own to outright retail purchases, either, because, with RTO, there’s no commitment to ever take title or ultimate possession of the property. It is a hybrid of both renting and retail purchasing, allowing maximum flexibility for the consumer. As explained later, there is far less risk, if any, for the consumer, compared to the RTO dealer or store owner.

Also not mentioned in comparison to retail is the benefit of services provided by RTO dealers to their customers. Flexibility to terminate a contract and easily reinstate a new agreement is granted to RTO consumers, unlike financing transactions. Early Purchase Options (EPOs) are part of virtually every RTO agreement. EPO’s provide the consumer with the option to purchase merchandise during the rental term at a fraction of the remaining payments. These bundled service arrangements provide substantial value to the consumer not offered in a retail transaction.

Understanding the Numbers

A major issue facing many companies in the RTO industry that continues to be a barrier to entry is the financing needed to get stores up and running. We see many lenders shy away from financing businesses in this industry due to a lack of understanding of the business model and the industry's (misconstrued) reputation. Lenders who take the time to understand this industry, its financial models, and the sector of the community it serves would help service a growing consumer base.

If financing is already secured or is not required, there are really no other barriers to entering the RTO business. There are no specific laws or regulations for the industry that would inhibit new entrants. This has created a robust, competitive industry that is good for the consumer — more competition means more competitive pricing.

Financial Statements—Typically, lenders underwriting RTO debt facilities don't fully understand the numbers being reported to them on the financial statements. As mentioned before, the RTO concept is not just rental and it's not just retail. It is a hybrid of both. Lenders incorrectly try to use traditional retail metrics to measure the viability of an RTO company. There are other metrics used in the RTO industry that paint a more complete picture of an RTO company's financial health. Financial statement users must dive a little deeper to truly understand what the numbers reflect and the characteristics of the store owners. Spending time with RTO dealers and their advisors is critical to gain this understanding of common metrics, acronyms, and industry jargon.

Balance Sheet—Asset-based lenders just looking at traditional balance sheet metrics will not gain the full picture of the financial health of the RTO business, either. On RTO balance sheets, traditional accounts such as accounts receivable and inventory are not separately reflected. RTO companies report their inventory as *lease merchandise* or *rental units* on the balance sheet and depreciate those costs similarly to other fixed assets until title of ownership passes to the consumer. Contract agreements they have with customers are considered operating leases. This means that lease revenues are generally recognized as they are collected. Thus, no receivable is recorded on the books, since there is no commitment for the customer to make the next payment, like a conditional sale.

Capital—Additionally, the industry is very capital intensive. RTO companies tend to be highly leveraged upon initial capitalization. New store owners must have a healthy balance of owner's capital and debt facilities in place before the first rental payment is received. For example, when a store owner rents out an item to a consumer, that same item needs to be replaced on the showroom floor before the second rental payment is received. This requires substantial initial capital as well as risk by the store owner. This "risk" borne by the owner is the cost required to provide flexible terms and services to the consumer, not the reverse like in a retail sale. This is not well recognized.

Gauging Financial Health—In order to gauge the financial health of an RTO company, lenders should generally look at projected cash flows, breakeven points, product margins, volume, KPI's, overhead compared to revenues, the owner's reputation, experience of the employees, and location demographics (when looking to finance a business). An RTO company's value lies in future expected cash flows and the risk associated with it. This won't be reflected in the balance sheet or income statement but must be taken into consideration when looking at the viability of an RTO business.

Collateral—Lenders are also used to having collateral for assets they lend on (i.e. real estate). They may not be comfortable with their collateral sitting in a customer's living room. This is understandable but does not mean the RTO industry is high risk. It puts the importance on understanding the business model. Projection models are important to demonstrate to a lender the future cash flows of an initial startup to a mature store. This may take 18-24 months at a minimum but is likely 36 months. Generally, a lender will calculate a revolving borrowing base which starts with some multiple of cash flow. Because depreciation of RTO units is "Cost of Goods Sold," that number generally gets adjusted to actual unit (inventory) purchases to evaluate debt service ability.

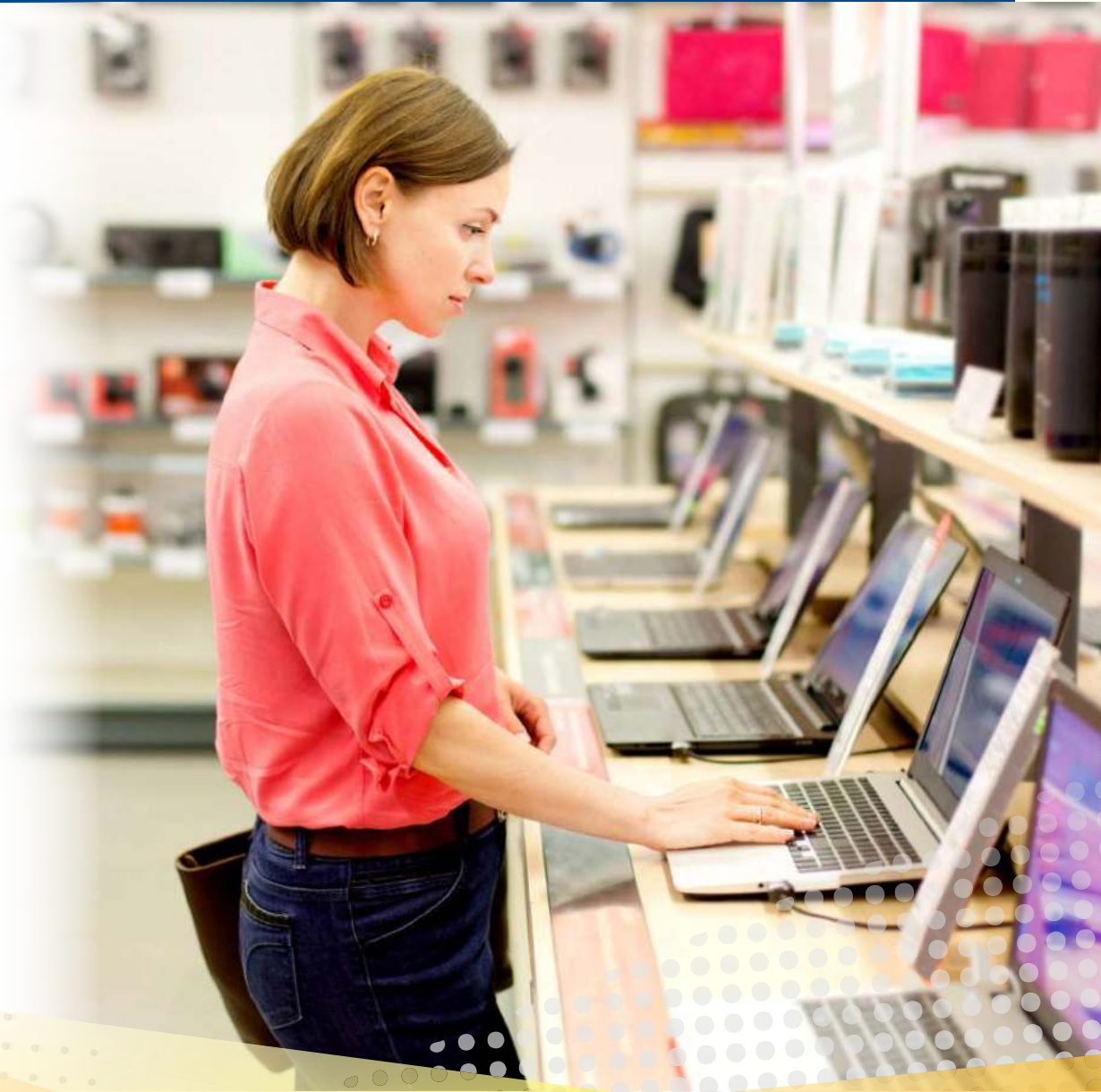




Although, the RTO industry may not be considered desirable to lenders, the services and opportunities provided to economically disadvantaged consumers is an intangible that is priceless. It's apparent the misunderstanding of the industry and its financial statements

is affecting the RTO industry's ability to impact the communities they serve. Lenders who understand the cash flow models of this business make better lending decisions. Like every other industry, there are companies with both good and poor fiscal management. The industry is not the problem and not all should be judged the same.

Our firm represents many businesses in a variety of industries. We attend RTO conventions on a regular basis and speak with many dealers who are not clients of our firm. We have always been impressed by how much attention to cash flow and metrics these business owners measure. From same-store sales and collection percentages to the number of deliveries and skipped or stolen goods, they really mind the store. Additionally, they share ideas of what does and does not work as an industry, together. We don't see many other industries putting competitors together in the same room to share operational strengths and weaknesses in an effort to enhance the industry brand and keep dealers accountable for the integrity of its purpose.

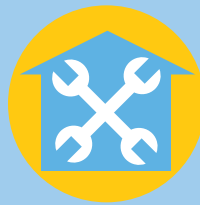


The Many Benefits of RTO

Understanding the benefits of RTO can exemplify why this may be a good option for not only the cash and credit restrained consumer, but also consumers looking for flexibility, which may include families, professionals, and athletes who are relocating and other temporary job and living assignments. According to APRO, an overwhelming majority of RTO customers return their rented items within the first four months. RTO agreements are more frequently used to solve short-term needs rather than long-term.

Some of the many benefits to consumers who utilize RTO may include:

1. Assisting consumers with acquiring essential household items.
2. Assisting consumers with no access to credit.
3. Assisting consumers faced with near-term economic uncertainty.
4. The rented items being covered by a warranty for the full term of the lease.
5. Free same-day delivery and assembly.
6. Free pick-up and tear down.
7. A credit check is not always necessary.
8. Adjustable payment terms.
9. Return the merchandise at any time, for any reason, without penalty.
10. No obligation, no debt for the consumer.
11. Free repairs or replacement of faulty merchandise.
12. The ability to try the product before buying.
13. Easy upgrades to newer technology or features.
14. Same as cash payment options over 90- to 180-day period at many RTO retailers.
15. Helping customers establish credit.
16. Fulfilling a short-term or seasonal need.
17. Providing emergency financial relief.
18. Immediate utility.



Let's say a consumer would like a television for a Superbowl party on a short-term rental period. Using RTO costs the consumer less than \$50, a much cheaper option than buying a large screen television. The RTO dealer delivers the product immediately and sets it up and will also retrieve the product when requested. If the consumer decides they would like the television for a longer period, there would be nothing to change, as they could continue to make weekly payments. Or, they could decide to purchase the television using a 180-days same-as-cash option. They could also swap the TV for a different one, maybe bigger, or smaller, or one with more features, and there would be no restocking fees or penalties to pay. If the television breaks, they can immediately have a replacement delivered and set up, at no additional cost.

Renting furniture, appliances, and electronics is the same as renting a smart phone. Not every consumer will buy a \$1,200 smart phone; many are set up with a 24-month payment plan. This is similar to renting a \$1,000 TV and living room suite with the intention of owning the products at the end of the contract period.

For low-income consumers, renting furniture is more of a necessity than a luxury. The "no future obligation" rental payments can range from weekly to monthly. However, upon completion of the contract, the consumer owns the product. They may also exchange the product for a new model, similar to leasing a car or phone. However, the cancellation of a leased car, apartment, or phone can carry a stiff penalty to the consumer, whereas RTO goods do not carry such a penalty. Thus, the payments are spread out over the term of the agreement, not loaded on the back end to prevent ownership. The goal is for the consumer to own the products they rent, but to give them flexibility during the process of purchasing them in the event that unforeseeable economic or other problems occur. By the way, RTO dealers rent smart phones as well.

RTO is an Essential Community Service



We've already established that RTO customers tend to be lower-income consumers. As a result, purchase options available to other consumers may not be readily available. It is often overlooked how the RTO industry can improve the lifestyle, peace of mind, and circumstances of these families. Imagine the time and cost of having to travel to a laundromat each week to wash clothes for a large family.

The cost due to the number of loads that would need to be washed and dried could be comparable to the weekly cost of obtaining a washer and dryer through an RTO agreement. The time saved by not having to travel and spend time at the laundromat each week is also a significant advantage to the family. At the end of the rental agreement, if carried through the term, the consumer will own the equipment, resulting in a cost savings going forward. Throughout the term of the rental agreement, if the equipment fails, it will be immediately repaired or replaced, at no cost.

When a family has an immediate need to replace their refrigerator, where do they go if they have no credit, poor credit, or no available cash? A big box store is less equipped to assist them with this. Using a layaway program would not put a refrigerator in their home until months later. The RTO dealer may be their only option to immediately replace this necessary household appliance. The RTO dealer is providing an essential service, and, in many cases, are the only business in the community providing families with a solution to this need.

More consumers are now [shopping online](#). Some shop online exclusively. RTO customers are no different and those companies who invested in internet and web-based technology are recognizing the benefits of having made those investments. However, one more thing makes the RTO industry amazing: relationships. Since there is no penalty for the consumer to stop payment on their contract, what makes them not shop for a cheaper deal online? You guessed it – their relationship with their RTO dealer. Artificial Intelligence cannot replace the feeling a customer gets when they truly know their RTO dealer is there for them when needed.

Does your big box store employee know your name? Or, even care to find out your name? Who sold you your last TV or laptop? During these recent trying times, many hourly wage workers either lost their jobs or had hours substantially reduced. Many of these households live paycheck to paycheck. Now they find themselves having to become a stay-at-home teacher for their children while seeing their paychecks get slashed.

Many school districts were able to issue laptops to children in need and others turned to their RTO dealer for help. Who else could they have asked for a new laptop at a reasonable weekly payment without a penalty for turning the laptop back in when it is no longer needed? Someone who knew them and understood their situation and was equipped for that type of need. What would happen to that household and those children if an RTO store was not available?



Here are a few examples of real-life stories demonstrating the impact of the RTO industry on the communities and individuals they serve.



Superheroes

Every year in May we get the pleasure of hearing about one industry leader who gives away cars and tires to nominated “superhero moms” for Mother’s Day. The winner is announced in local stores where nominated families are present. These gifts wouldn’t happen without having developed relationships with these consumers and, by doing this, an incredible bond is forged with the community.



Personal Shoppers

Another RTO brand has a personal shopper program. The program provides an avenue for customers to order non-standard items while using the RTO model of payment to divide the cost into small payments. An example of this is of a woman whose grandson had a debilitating condition. She used this program to order a new seat for him to help him sit up straight. Under normal circumstances, she wouldn’t have been able to afford the seat; however, the biweekly payment structure offered through the personal shopper program gave her the means to obtain it.



Back to School

One RTO store owner says the RTO industry provided him with an employment opportunity to find fulfillment, as he gets to know his customers as people rather than numbers. He leveraged his relationships with customers into a motivated career and eventually worked his way in to ownership of RTO stores. In 2014, he began an annual Back to School party for customers, who received free backpacks filled with school supplies. His stores continue this annual Back to School event, handing out 100 backpacks at several store locations.



Christmas Wish

One RTO chain in the midwest is a hub of community involvement, providing school supplies, clothing drives, and a Christmas Wish. One particular Christmas wish deeply affected one of the chain’s managers. The wisher wanted to take her mother, a terminal cancer patient, to the beach for one last family trip. The RTO store granted this wish, taking the wisher and her parents to the beach – a little bit of hope in a difficult time. The smile on the wisher’s mother’s face remains one of the manager’s fondest memories.



Blessings

This same midwestern store once hired three new employees over a six-month period. Two were single mothers and the last had been unemployed. Seeing the challenges these team members face on a day-to-day basis has helped their manager better understand the difficulties of living in a poverty-stricken community. The manager says it has made her appreciate her blessings and has made her a better person.



A New Home

Just this past June, a widowed single-mother received the surprise of her life when she was presented with a fully furnished home. A large RTO chain partnered with Warrick Dunn Charities and Habitat for Humanity in providing this home to the mother and her four children.



Scholarships

For more than a decade, the **APRO Charitable Foundation** has annually provided scholarships to RTO professionals and their families. APRO members have contributed generously to the APRO Scholarship Fund—awarding 385 scholarships totaling \$875,750 to date—to help students connected with RTO pursue their college degrees.



Disaster Relief

Since 2005, **APRO** members have also contributed to the RTO Employee Disaster Relief Fund, which has dispersed more than \$425,000 to those affected by natural disasters including hurricanes, tornadoes, and fires. These funds have helped RTO employees recover from these devastating catastrophes. The support the RTO industry provides to its family is astounding.

Conclusion

RGCO has been working with RTO clients for years. Within every industry, there are some businesses that are operated better than others. But a better understanding of the ethics, purpose, and mission of the RTO industry would go a long way in helping these businesses expand and provide much-needed essential services and products to our communities. RTO serves, not just sells, to a sector of the community that is underserved. We support that industry and the owners of those businesses making life a little more comfortable for their customer base.

We wrote this paper not for the RTO dealers who already know about their industry, but for the general consumer and lenders who may not have the time to gather this information on their own. While many more details could be included, we understand that everyone has a limited amount of time available. If you would like to discuss further, we'd be happy to help and look forward to the conversation. In conclusion, we hope that the RTO industry begins to receive the positive recognition it deserves for the great work it does!

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