

Retail Finance



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“If sufficient delinquency and charge-off levels are not maintained, companies must shift their long-term underwriting and servicing models.”

David Minero
Tidewater Finance

Lease-to-own looking good

Opportunities abound for financing programs

By Powell Slaughter
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HIGH POINT — Companies providing credit financing and lease-to-own services to furniture retailers are bullish on prospects for 2017.

With a national election in the rear-view mirror and good numbers for employment, the stock market and potential GDP growth, they're hopeful that the coming year offers opportunity for themselves and their retail partners.

Potential headwinds include an increase in interest rates, but aside from that, financiers' increasing reliance on technology to smooth the application process for consumers and retail sales associates alike should help make for a good year.

Headwinds, tailwinds

TD Bank conducted a survey of retailers at the 2016 Furniture Today Leadership Conference last month. Potential interest rate increases, a possible headwind for furniture sales, could be a good thing when it comes to consumer confidence, the survey indicated. More than half of 109 respondents said they thought a bump in rates would have little impact on home furnishings sales this year.

“Interest-rate hikes would be a sign the economy is recovering a bit, and that is great news, plus we have the uncertainty of the election behind us,” said Mike Rittler, who heads up retail card services for TD Bank.

Fortiva CEO Jeff Howard said he sees a “little of both” when it

comes to headwinds and positive influences for consumer financing this year.

“On the positive side, we're seeing GDP growth and continued stability in employment,” he noted. “Other consumer lending asset classes are trending well.”

On the other hand, Howard believes there's a potential impact from rising interest rates.

“There could be a little more stress on the consumer from a lending perspective,” he said.

On the plus side is economic growth before and after last year's presidential election.

“Higher rates of consumer spending will create growth for our retail partners, and therefore be good for us,” Howard said. “We've also been hearing from prime lenders and other asset classes that higher delinquencies are becoming more prevalent in the marketplace, which we are keeping an eye on.”

Crest Financial CEO Bob Millerberg said the lease-to-own community is much more competitive, with the past few years bringing in several new players that are changing how retailers choose an LTO solution.

“Balancing automation for speed and quality of transaction with the continuing need for operational excellence in providing top tier support for retailers will be key,” he said.

Another key moving forward is that retailers maximize the potential that a customer will be offered financing.

While the LTO market in particular has seen several entrants,

Lendpro chairman and founder David Weyher sees a lot of changing terms among existing players in that segment.

“It can change on a dime. It's important to have more than one (financing) option,” Weyher said. “While new players provide options and opportunity, there can be a risk. Retailers are concerned about their customers' experience, and some of these might be untested in their stores. I've seen a lot of the discounts charged with LTOs go away.”

J.R. Zirkelbach, senior vice president of sales at Tempoe, also mentioned the mounting competition in LTO services.

“Virtually all providers in our space face mounting competition,” he said. “Newcomers are entering the market regularly, but unfortunately they are often riddled with offers that are not sustainable for retailers in the long term.”

While he doesn't expect headwinds for AcceptanceNow's business this year, Stephen McKinley, vice president of sales and client relations, believes some of the new LTO players in the furniture realm could “fade away.”

“LTO requires a company to invest a lot of human and monetary capital to support the traditional retail industry,” he said. “You need a strong infrastructure and experienced senior leadership staff to provide value to the retailers. Retailers are seeing this and would rather gravitate towards brands that have a proven concept and continue to deliver incremental revenue to their bottom line.”

Seamlessness and ease **24**

Defining the issues

By Powell Slaughter
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HIGH POINT — What do financial-services providers see as the most important issues in the 2017 when it comes to serving their retail clientele?

David Weyher is chairman and founder of Lendpro, which partners with various financing and Lease-to-own providers to offer retailers a range of options across a range of credit-requirement levels. He pointed out that retailers' lending options continue to evolve and fluctuate, which he sees as a benefit.

“The challenge is keeping up with the lending options available from lenders for the retailers,” Weyher said. “What we're seeing are entrants coming into the market and a shifting of lenders as to where they'll play and what terms they offer.”

Long-term, no-interest programs are often scaling back, he noted, adding that in the LTO space, “we're seeing changing terms for 90 days vs. same as cash.”

“We work with all sizes of retailers,” he said. “The underwriting by the lenders for the smaller retailers seems to have decreased lately as far as who'll they approve and work with. Lendpro works with several lenders in each category to protect our retailers from those changes in the marketplace.”

“We need to focus on understanding what it's like to be a retailer,” said Crest Financial CEO Bob Millerberg. “It's too easy to brush aside the retailer's day-to-day business challenges that go beyond the (lease-to-own) solution we provide.”

Becoming first choice

Kevin Lawrence, vice president of sales and marketing at Versatile Credit, believes finance companies must guard against becoming commodity providers, especially with the increasingly competitive no-credit-required market.

“What we're hearing from our customers is that they have any number of choices when it comes to financing,” he said. “One thing the prime lenders do very well is bringing services over and beyond their service — analytics, customer profiles.”

“Everyone on our end wants to do business with the same retailers, and the question is how do we become the first choice? Is there something we can bring to the table that helps them understand the no-credit-required market?”

Mark Olson, vice president of marketing and field sales development at Progressive Leasing, said the most important thing facing the industry is the continuing education process of merchant partners and their retail sales associates.

“Credit-challenged customers walk into every store in this industry,” Olson said. “If the need exists and a solution isn't offered, both the retailer and the consumer lose.”

At LTO provider AcceptanceNow, Stephen McKinley, vice president of sales and client relations, foresees technology enhancements continuing to add value to the retailer and customer experience.

“With that said, what we have found and what the retailer continues to tell us is that no technology replaces the personal touch of human interaction between the customer and payment options that are offered by the retailer,” McKinley said. “AcceptanceNow's staffed model remains our focus and commitment to drive incremental revenue for our retail partners.”

“We are working on a number of fronts to improve the AcceptanceNow employee experience within each of our retail partners, which will ultimately pay additional dividends to the retailer and overall customer experience.”

Customer experience

From a company perspective, Fortiva CEO Jeff Howard feels very good about its offering to clients — making sure customers can be approved online or in the store to make for a seamless process. **22**

Retail Finance: The Issues

“Seamlessness needs to exist not only with the in-store process, but also with the online process,” Howard said. “We have the infrastructure and technological flexibility to transition from online to in-store through both point-of-sale and web integrations. ... We see this as ‘version 2’ of that focus on creating a seamless process.”

Meeting retailers’ expectations regarding customer experience is

the top issue at Zibby. “Customer loyalty is critical for our retailers, and we are constantly looking for ways to increase engagement and loyalty to our retailer’s brand,” said Tony Cerino, director of sales.

TD Bank’s retail card services is among the more traditional finance-servicing sources for retailers, and Mike Rittler, who heads up that end of TD Bank, acknowledged the increasingly

competitive environment created by secondary and no-credit-needed providers. “We look at two ends — first, our retail partners. If we can’t serve them, we don’t have end customers,” Rittler said. “What’s important to them is flexibility; it has to be a frictionless process (for their customers). The last thing you need is for the credit application to interrupt the sale.

“On the end-customer side,

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“Everyone on our end wants to do business with the same retailers, and the question is how do we become the first choice?”

Kevin Lawrence
Versatile Credit



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we’re looking for options. Some (consumers) want an equal payment, while some want a minimum due for a time. We try to make sure our retail partners understand the value of both plans.”

David Minero, national sales manager for Tidewater Finance Co., pointed out that consumers in the secondary space routinely face life events that can impact their monthly cash flow. “Navigating those events in conjunction with the customer is crucial to continuously serving the retailers that provide those customers products and services,” he said.

Ways to maximize

With a lot of newcomers in the market, especially in the lease-to-own space, retailers need to be wary, said Tempoe Senior Vice President of Sales J.R. Zirkelbach. “Our clients demand and deserve best-in-class service — which can be provided by just about any company initially or intermittently. ... Sustaining performance like this is certainly challenging and requires continual business evolution,” he said.

Genesis launched its first second-look financing program five years ago with the goal of offering a prime-credit experience for non-prime credit customers and the retailers that serve them.

“It is important that we continue to provide lending to our retailers in the ways that help them maximize sales,” said Bruce Weinstein, CEO of Genesis Financial Solutions. “That includes making sure we can serve customers online; both providing instant credit decisions and using our cards online, while we continue to provide excellent service in store.

“Another important issue is to ensure that we are able to maintain our credit coverage for our retailers, regardless of what the market throws at us. We need to stay on top of fraud, macroeconomic and demographic shifts so that we remain a stable and constant resource.” ●

Retail Finance: Lease-to-own

of transaction for RSAs and customers alike are key at Versatile Credit. "How do they do this in a way that both employees and customers are willing to participate?" said Kevin Lawrence, vice president of sales and marketing. "How can they leverage technology to improve the process?"

Retailers are embracing the concept of a "waterfall" or "cascading" credit option, he added.

"If they get a customer to come into the store, how do they keep them there to make a sale?" Lawrence said.

If retailers offer primary financing in combination with a secondary or no-credit-required option they can reach almost all consumers. "While that's important, it's a process fraught with high abandonment rate and fatigue for both the customer and

the sales associate," he added.

Olson at Progressive sees more tailwinds than obstruction to its business this year.

This past year "brought thousands more doors offering help to credit-challenged customers," he said. "Those additional doors become more examples of opportunity for the doors yet to adopt a full spectrum of financial programs. At some point, lease-to-

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"The gap between the prime lenders and no-credit options remains the biggest miss for retailers."

David Weyher
Lendpro



own programs will be in every store and be a common payment type for the consumer."

Genesis Financial Solutions is confident about the coming year. "We anticipate the business, regulatory and macroeconomic conditions will more than offset any headwinds in the housing sector due to rising interest rates," said CEO Bruce Weinstein, noting the company is positioned to address the impacts of these changes.

While Zibby Director of Sales Tony Cerino believes a lot of high-end and larger retailers are not comfortable with the LTO pricing model, he said the category's growth is too big to ignore and that Zibby is working to alleviate retailers' concerns through a dynamic underwriting platform and enabling consumers to reduce their cost over time by rewarding them for on-time payments.

"We also know that our industry and our customer base are undergoing a lot of change right now, and 2017 will be no different," Cerino said. "It will be important to be able to adapt quickly to meet new challenges as these changes are taking place."

At Tidewater Finance Co., David Minero, national sales manager, believes portfolio performance and anticipated rate increases, which could potentially affect cost of funds, are on his radar screen this year.

"Loan portfolios simply must perform at acceptable levels in order to produce positive returns," he said. "If sufficient delinquency and charge-off levels are not maintained, companies must shift their long-term underwriting and servicing models."

Opportunities ahead

Technology, specifically system-to-system integration and offerings from third-party providers, presents an opportunity this year, according to Minero at Tidewater.

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Retail Finance: Lease-to-own

a more consistent, user-friendly experience throughout, from the approval process all the way through to the funding of the merchant," he said.

Rittler at TD Bank reiterated the fact that customers walking might know more about retailers than their retail associates think, and offering credit options during the research phase can help.

"Especially with furniture retailers, an interesting dynamic is that the first time people walk into your store is not the first time they're checking you out," he said. "If we can make credit offers in the online arena, (consumers) can walk in ... knowing they have credit available."

There's an opportunity, as well, for educating merchants and retail sales associates on gathering sales through varied financing options, said Mark Olson, vice president of marketing and field sales development at Progressive Leasing. "No credit-challenged customer could walk away from an intended purchase because they weren't offered help," he added.

Versatile's Lawrence believes the challenge all retailers face is growing sales. That means chang-



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Bruce Weinstein
Genesis Financial Solutions

or no-credit-required financing that needs to be overcome.”

Zirkelbach at Tempoe agreed: "Nearly a third of the U.S. population is technically 'sub-prime' today. Many merchants want to believe that the leasing customer is not their customer. Realistically, the leasing customer would easily be the customer of the vast majority of merchants if only they knew of a payment option available to accommodate their needs."

A flexible product offering and the accompanying technology for a "seamless" consumer experience will be key to Fortiva's busi-

a no-credit-needed option to the underserved non-prime consumer," Cerino said. "This is mainly because most LTO options aren't available online, and if they are, it's only the application, not a full-cart integration."

Lendpro's Weyher thinks some retailers need to broaden their financing options. "The opportunity is that there's still a lot of money being left on the table," he said. "The gap between the prime lenders and no-credit options remains the biggest miss for retailers."

McKinley predicts strong growth in acceptance for LTO programs, so much so that AcceptanceNow has built an entire department around national sales growth. "Looking out 12 to 24 months, I can see a landscape that will be different from today as more and more national retailers adopt and embrace the LTO offering like so many of the regional and local retailers have over the years," he said.

"Customers are demanding payment options of all types, and ... customers want to shop in their favorite stores. Sometimes, the only option for both the retailer and customer to overcome these challenges is an LTO option."

Weinstein at Genesis said the Millennial segment continues to be an area of focus of its retail partners' business. "Millennial shoppers now represent almost 40% of the buying segment in the furniture and bedding segment, which is up significantly from less than 15% in 2012," he said.

He added that the recession prevented many of that generation from establishing credit. "Millennials have an affinity toward online shopping and online financing, and we are working ... to support the buying preferences of this important segment." ●



“Balancing automation for speed and quality of transaction with the continuing need for operational excellence ... will be key.”

Bob Millerberg
Crest Financial

ing their thinking about secondary and no-credit-required programs. "We think it's about embracing technology solutions that take the retailer 'out of' the application process," he said. "There's a real opportunity for retailers to overcome some of the concerns they have about offering secondary programs."

"They might say 'We have 80% approval with our prime lending.' Beyond that 20% they're missing, there's a whole base of consumers who aren't coming into your store if you aren't promoting (secondary or LTO) programs," Lawrence said. "I think there's a stigma about offering secondary

ness in 2017.

"Our configurable product offering and flexible technology allow us to provide a seamless program to consumers by integrating into our client's environment, rather than making them fit into ours, whether it be online or in store," Howard said. "We're excited about the opportunity we have in this market, the investments we've made over the past 10 years, and the macroeconomic trends we're seeing today."

Zibby sees a lot of untapped potential for financing in the online space. "Many e-commerce and omnichannel retailers are missing an opportunity to provide