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**HBR CASE STUDY**

## Play It Safe at Home, Or Take a Risk Abroad?

*by Michael Chu*



A U.S. lease-to-own chain considers whether to test its business in Mexico. *by Michael Chu*

## Play It Safe at Home, or Take A Risk Abroad?

Stan Windham walked into the newest Coe's store in South Tucson. As CEO of the lease-to-own chain, he was eager to see how his 1,000th location was performing. Aubrey Merrin, the store manager, met him at the door.

"Mr. Windham, so good to see you, sir. The new employees are real excited to meet you. And of course I want to update you on how everything's going," Aubrey said as he ushered Stan inside. "We're doing great so far. Open for less than a month and over 100 customers already. It's a real good start, sir, a real good start."

"You don't have to call me 'sir,' Aubrey," Stan said, realizing it was probably hopeless. "Congratulations. I've said it before, but I'll say it again: I appreciate your taking this on."

Aubrey had transferred from the Coe's up in Flowing Wells, where he'd been the store manager for 10 years. He was raising three kids on his own, and although this location meant a slightly longer commute, he'd jumped at the opportunity.


"I'm honored, sir, to be opening a brand-new store," he said. "And with the economy as it is, I'm just happy to be working for a growing company." He pointed up at the celebratory banner that still hung

in the front of the store. "Everyone else I know is talking about layoffs, not grand openings."

Stan felt lucky, too. When his father, Terry, opened the first Coe's back in the 1950s, he certainly hadn't set out to enter a countercyclical industry. He'd invested \$600 in 32 chairs to rent out to auction houses, and the business expanded from there into party equipment and sickroom gear. In the 1970s he shifted to residential furniture and other household goods. Terry prided himself on conservative growth—when he was starting out, he wouldn't buy a second item in a category (say, a sofa or a refrigerator) until the first one had been rented—and he took a "tough love" approach with his employees, especially with his son. When Stan started as an assistant manager, in 1984, the same year Coe's went public, Terry had expected him to work harder than everyone else to prove his worth. And Stan had. Coe's now took in over \$2 billion a year in revenues.

Stan looked around at the room displays. "We thought this might be a tricky location for us with Mr. Rental all over South Tucson," he said.

Aubrey nodded. "Yes, sir, I was worried about that, too—market saturation. I've

 HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Aaron's: Household Goods for the U.S. Base of the Pyramid" (case no. 311047) by Michael Chu and Charles Smithgall, which is available at [hbr.org](http://hbr.org).

read about it. But we're different from Mr. Rental."

Unlike many of its competitors, Coe's had always emphasized ownership: More than half of its customers became owners by the end of their leases, compared with 25% for Mr. Rental. Coe's offered a monthly payment schedule and a shorter contract period (12 months versus four or five years), which meant higher fees each month but a lower cost of the eventual purchase. Also, Coe's managers were trained to approve lease agreements only for people who could afford the payments.

"Are we getting any of Mr. Rental's customers?" Stan asked.

"Some. But I think our strong opening is thanks to the recession more than anything. We're seeing people in here who'd never have considered Coe's before—wealthier folks who are nervous about committing to big-ticket items outright."

Aubrey greeted a customer, shaking the young woman's hand and offering balloons from the Grand Opening display to her two toddlers. He really had a way with people. Ten years ago, Stan had debated about hiring him, put off by his lack of sales experience. But Terry had said, as he always did, "You can teach people to sell, but you can't teach them to smile." And he'd been right. Managers like Aubrey, who fostered immediate trust with customers, were much more successful when it came to collecting the monthly payments.

Once Aubrey had introduced the customer to a salesman, he returned to Stan.

"Can I ask you a question, sir?"

"Yes, Aubrey, as long as you stop calling me 'sir,'" Stan said with a laugh.

"I've been thinking about how well Coe's is doing here, with all the new stores. And I think there's a market that you should consider: Mexico." Aubrey was shifting back and forth on his feet. "So many of our customers are from there originally, and they've all got family back home....I just, I think it would be a good, er, strategic move for the company, sir. And I would be more than happy to go down and train the

staff there. You know I speak Spanish, and my kids do, too. My late wife was Mexican."

"As a matter of fact, that's a conversation we've been having at headquarters," Stan said. "We've been considering Mexico, and Europe. Our investors expect us to keep growing. Still, we need to do it smartly." Stan had led a successful expansion into Canada in the 1990s when he was the COO, and Coe's had over 100 stores there now. But a venture into Puerto Rico a few years before had failed miserably: He'd been forced to close the pilot store after only 12

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months. Too many customers had skipped their payments and walked away with the products, and the store manager hadn't been able to handle the massive amount of collections. Several analysts had downgraded the chain's stock as a result, and its share price had plunged. Stan didn't want to make the same mistake twice. "It's a good time for us and potentially a great market," he told Aubrey. "But it's also a risky time."

### A Second Opinion

On his way back to Phoenix, Stan stopped at a Circle K off Route 10 to grab a cup of coffee. The woman behind the counter noticed the Coe's logo on his shirt and smiled.

"Coe's! Do you work there?"

"I do," Stan said. This was exactly why he wore the shirt instead of a suit.

"My whole house is from Coe's. My daughter's, too."

"Which one do you shop at, Carmen?"

Stan said, reading her name tag.

"Down on East Florence Boulevard. Right next to the Walmart. Cesar's my guy. I go to see him every month, make my payment. My TV is from you, my couch. Every morning I think, 'Gracias por Coe's,'" she said, quoting one of the company's Spanish-language commercials.

"I'm glad to hear it." Stan handed her two dollars for the coffee.

"You need to open a store in Mexico! My mom is down in Hermosillo. She can't believe all the things we can get up here. Plus free delivery, free repairs. She's telling all her friends about it." Carmen passed him his change. "They've got nothing down there like it. Walmart is there, but they only take cash or credit, and my mom doesn't have either. Other stores will give you credit, but nobody will rent stuff to you like Coe's."

Stan smiled. First Aubrey, now a customer: Mexico was popular this morning. And a few people at headquarters were on the bandwagon, too. His business development team had gotten some good market data about the border cities—Matamoros, Monterrey—and some leads on potential partners.

Stan left the store and grabbed a Coe's hat from his trunk.

When he returned and handed it to Carmen, she laughed: It said "Gracias por Coe's!" in big white letters.

### A Prudent Path

Back at the office, Stan stopped by to see his CFO, Carl Amirault. He wanted to be sure everything was ready for the executive team meeting later that day. They were set to discuss the firm's five-year growth strategy—again. Stan told him about Aubrey's suggestion and the chatty cashier at the Circle K.

"Are we letting employees and customers dictate our expansion strategy now?" Carl joked. "If you'd run into an Irishman, would you be pushing for Europe?"

"Well, Europe is on the table, too. But Mexico might be easier—maybe starting small with two or three stores in Juárez and testing the model. Your own team's analysis showed how many people don't have access to credit there."

"Yes, but we're still mapping the regulatory environment," Carl warned.

The two men often sparred like this. In fact, whenever one of them took a stand, the other tended to push harder in the op-

posite direction. Stan knew his father had wanted that kind of tension—in fact, had nurtured it. As he mentored both of them up through the ranks, he had fostered debate between them, always telling Carl to be prudent while encouraging Stan to think big and trust his gut.

“The environment has to be better than here,” Stan said. In the height of the recession, U.S. consumer protection advocates had attacked the rent-to-own industry, claiming the total price of goods—often 60% to 90% higher than that of traditional retailers—amounted to predatory financing and caused undue hardship for customers. Stan and other industry CEOs argued they were providing a much-needed service: giving people without access to credit a chance to acquire household items, in a way that suited their cash flow, preserved their credit, and allowed them to eventually own the item outright. It worked just like a car lease—and those weren’t seen as predatory. And if at any time leaseholders couldn’t make their payments, they could return the items with no penalty and resume the contract where they left off whenever their financial situation improved. But he knew the fight was far from over.

“Karen says Congress is going to be all over this in the spring,” Stan said, thinking of his discussion with Karen Werner, the general counsel of Coe’s, the previous day.

“I doubt it. They have bigger fish to fry,” Carl argued. “Besides, you can’t legislate what customers want.”

“That’s true. Still, I’m just concerned. The bottom line is we need to diversify our risk. And Latin America might be a relatively inexpensive place to do that, considering the lower transportation, labor, and real estate costs,” Stan said.

“There are plenty of growth opportunities right here in the U.S. We should be putting a store next to every Walmart. We have the same customer base, and people need an alternative when they’ve been turned down for credit. Or we could experiment with our product line, try the rent-to-own concept for goods beyond

basic household items. We’ve got lots of options without taking a risk abroad. We’re not seeing shrinking margins yet,” Carl said.

“Yet,” Stan shot back.

“But why would we add the complication and risk of international expansion when it’s not necessary? In this economy, investors want growth, but they also want to play it safe,” Carl said. “And I don’t need to remind you about Puerto Rico.”

Stan expelled a deep breath. “I’m worried that things are going to get too restricted here, and if that happens, we may regret not having gone elsewhere to continue growing.”

### The Voice of Experience

Back in his office, Stan asked his assistant to get his father on the line.

When Stan had taken the reins, two years earlier, Terry had promised to stop coming into the office every day. He’d said the company was in good hands and he was looking forward to retirement. But Stan knew that wasn’t entirely true. His dad loved the business and missed it. Hell, he wouldn’t be surprised if Terry still put on his Coe’s shirt every morning.

“Hi, Dad,” Stan said.

“There isn’t an emergency, is there?”

“Nope, nope. I was just checking in. I was down at the South Tucson store this morning.”

“A thousand stores. It’s hard to believe. How’s business?”

“Good. Aubrey’s doing great. Listen, I need some advice about a strategy meeting we have today. I’ve been giving serious thought to Mexico. The more I look into it, the more attractive it seems. The market is large, and the competition is weak. People don’t have a similar alternative.”

“OK,” Terry said. “But don’t forget about Puerto Rico. We had the trouble with shrinkage, and we couldn’t find the right personnel. It was a tough market.” Stan gave an exasperated sigh, but not loud enough for his father to hear.

“We certainly learned some lessons,” Stan acknowledged. “But to tell you the

truth, I’m concerned about building a growth strategy solely on U.S. revenues. We’ve been talking about going international for a long time. The analysts are all over us about future growth.”

“What about Europe?” Terry asked.

“The culture and the regulatory environment there are a lot more like ours.”

“That’s not necessarily a good thing. Besides, the cost of opening stores is just as high as here.”

“What does Carl say?” Terry asked. Stan smiled. His father was so predictable.

“His team’s analysis says we have a 35% chance of success in Mexico, but I think they were too conservative. Carl feels that the U.S. is the only market we know well enough and that we haven’t fully tapped it, especially with the down economy,” Stan said. “He wants us to focus on increasing profitability, not go into uncharted territory. It’s too risky, he says.”

“If only you had a dollar for every time Carl said ‘It’s too risky,’” Terry joked. “But he has a point,” he added more seriously. “We’re doing so well in the domestic market. Why wouldn’t we stay focused and see what happens with the economy?”

“Because it’s a crowded, expensive market. It makes a wide-open field where there’s a real need for our business look very appealing. We’ve always said we wanted to help as many people as possible get access to the things they need. An affordable path to ownership while still making a profit, right?”

“Right. We just need to be sure we don’t hurt the company trying to do that.” There was a long pause. “Of course, it’s your company now, son. Your company, your call.”

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