

E-pawnshop

Investigating the possibility to incorporate the
usage of Internet for pawnshop specific processes

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“Sic itur ad astra.” - **Vergilius**

Abstract

The pawnshop industry is a considerable business today. There is an obvious and even growing demand for small short term loans. These kind of loans are something that traditional banks are generally not interested in offering due to high costs to initiate a loan. Pawnbroking is the oldest method of lending money and the way of conduct is virtually still the same. This means that most processes at a pawnshop are manual. Owners of SMEs (Small and Medium sized Enterprises, pawnshops included) often assume that their business is unique and not fitted for incorporating informational technology such as Internet. This belief often proves to be incorrect making the business less effective and therefore less competitive. The purpose of this thesis is to investigate and, if possible, suggest possible improvements for the pawnshop business.

By studying Swedish laws and legislation and examining solutions that a few Swedish pawnshops are using, a detailed description of work processes were made. These were used to create a new and improved work processes focusing on lowering manual workload, in other words reducing the demand for human input and involvement. This research shows that the processes at a pawnshop are actually very fitted for Internet. A big portion of the manual work can be made more effective and in some cases even automatic. These mostly concern CRM (Customer Relationship Management) which is an major part of the workload. An interesting detail that appeared was that the pawnshop business, when deconstructed into processes, was not that unique or complicated as it might seem.

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1 Introduction

Electronic commerce is one of the most discussed topics in business today. (Daniel et al, 2002) It is already leading to the reshaping of customer and supplier relationships, the streamlining of business processes and, in some cases, even restructuring of whole industries. Much of the media coverage of e-commerce concentrates on “born to the web” companies such as Amazon.com and eBay.com, or its adoption by large, traditional “bricks and mortar” companies. (ibid) However, SMEs (small and medium sized enterprises with up to 500 employees) are increasingly making use of the Internet. (Daniel et al., 2002) The opportunities that the Internet offers are especially big for SMEs looking to market their products and service. (Palumbo & Herbig, 1998)

A pawnshop, also referred to as “pawnbroker”, can be considered to be a SME. (Markström, 2006) The business of pawnbroking is a profession frequently misunderstood, limiting their business and turn-over. (Oeltjen, 1996) E-commerce is a relatively inexpensive and effective way to enhance customer relationship and manage impression of the business or firm. (Simpson & Docherty, 2004) E-commerce also offers many others benefits that are especially interesting for SMEs, and therefore for pawnshops. (ibid)

1.1 Background

Pawnbroking is an establishment with purpose to make short term loans with goods left in the pawnbrokers' possession as security. (NE, 2006) Historically, pawnbroking is one of the oldest methods of lending money. (Oeltjen, 1996) It has always been possible to lend with a pledge as security. (ibid)

1.1.1 History of pawnbroking

There are a number of historical references to pledging goods, even slaves, as security for loans in ancient Babylon. (Skully, 1994) The Greeks and Romans later developed similar practices. There are many other early historical lending references where the collateral was a movable item, but these transactions tended to be just one of normal money lending and other businesses rather than a specialist trade. It is uncertain when and where pawnbroking became a specialist business of its own. It seems, however, that this kind of establishment stretches further back in time in Asia than in Europe.

Within Asia, pawnshops can be traced to the fifth century and seem to have been developed first within China and then later expanded to, or developed independently in, other Asian countries. The Buddhist monks aimed to help poor people and not to profit. The lent goods were repaid with equivalent items or with very basic goods such as wheat or rice. To ensure repayment, the monks soon reduced the risk of unsecured lending by requiring the potential borrower to pledge other items to support the loan as well as provide third party guarantors. These pledged items could be movable such as clothing or animals, or immovable objects such as land and buildings. In time, this business side of monastery began to concentrate more on accepting goods like a modern pawnshop, or for safe keeping. Its success also attracted private business men. By the 7th century independent pawnshops were established, operating outside the monastery. (ibid)

The earliest European pawnshops arose in Italy in the 11th century. (Skully, 1994) As in the case of Asia, the establishment had a religious connection. The focus was strong on a non-profit activity, since it was against the Christian belief. In the beginning there were no interest-fees. However, the European monks realized that they had to charge an interest in

order to continue the operation and attack an ongoing and successful money lending business run by the Jewish community. (ibid) The church's ban on taking interest for a loan of money led to the re-labelling of interest, calling it "transaction fee" and "storage fee". (Johnson & Johnson, 1998)

Since the introduction by monks in Asia and Europe, the pawnbroking industry has played a prominent part in society. (Caskey, 1991; Lao, 2005) An example of this is the legend that Queen Isabella of Spain pawned her jewels in 1492 to fund Christopher Columbus first voyage that would lead to the discovery of American continent. (ibid) Caskey (1991) say that this has shown to be historically incorrect. However, the pawnbrokers preferred making business pawning more ordinary items such as clothing, farming equipment and furniture. (Johnson & Johnson, 1998) The reason for this was that these simple items were easier to value and sell, if not redeemed. Pawnshops generally tried to avoid accepting stolen property. A money-lender who knowingly or unknowingly accepted stolen goods as pledges was not entitled to any compensation, if they were claimed by the rightful owners. (ibid)

As mentioned, even though interest was banned pawnbrokers were permitted to take an annual "fee" of 43,3 % of the loan amount during the early 14th century. (Johnson & Johnson, 1998) Because of the high rate pawnbroking business was often very disliked among borrowers. For common people in the Middle Ages, the pawnshop was considered to be both a terror and a necessity. A common belief was also that pawnshops were the source of all evil. These opinions had supporters in all classes. All this negativity resulted in pawnshops being forced to run their business outside the central parts of the town. People simply didn't want to be mixed with the industry. Also, it was believed that if one was forced to visit a pawnshop he or she should be able to do this in secrecy. Due to complaints, actions were taken reoccurringly to reduce the interest but in order to survive the pawnshops simply lowered the loan-to-value ratio. (ibid)

Most countries in Europe decided that the public sector could provide small loans at lower rates. (Johnson & Johnson, 1998) Those efforts provide an interesting insight into the economics of pawnbroking. Municipalities in France and the Netherlands established *monts-de-piété*, or "funds of pity." These government lenders superseded the pawnshops in the beginning of the 17th century. They quickly found that making small loans was more costly than making large loans. Since public pressure forced them to charge much lower rates than the pawnshops, they had to make up for the lower interest income by reducing the ratio of the amount lent to the market value of the pawn. In order to defend this new low loan-to-value ratio, new regulations were made. They stated that if the sale of a pledge by the pawnshop did not bring in the amount loaned, the loss would have to be paid by the borrower. A surplus from a sale could be claimed by the customer within two years from the date of the sale. (ibid)

1.1.2 Pawnbroking today

Fast forwarding to today, the former principles of pawnbroking are still applied. (Johnson & Johnson, 1998) The pawnbroking practice is not as spread as in the Middle Ages but they still play an important role as a lending institution for many individuals who do not participate in mainstream credit markets. (Lao, 2005) Restrictive rate ceilings on cash credit force these "regular" lenders to deny credit to consumers who pose a high risk or desire only small amounts of credit. (Johnson & Johnson, 1998) Not only do ceilings exclude consumers from the legal market, but also they drive smaller lenders from the market and thereby diminish competition. Therefore, economists have generally criticized these regulations as unfavourable to low-income consumers because financial institutions under binding rate

ceilings tend to allocate credit to only the most credit-worthy borrowers, who generally belong to middle-or high-income groups. Moreover, even if a consumer has a steady job and has always paid bills promptly, he or she is unlikely to be able to obtain a one-month loan of \$70 within minutes from a bank, finance company or credit union. These lenders are seldom equipped to provide that type of service. This is not a criticism of those institutions. A wholesale grocer does not sell one apple at a time. (ibid)

While mainstream credit markets conduct background credit checks before issuing loans, pawnshop customers do not need to have good credit to obtain a loan, and are instead given money generally based on the value of their pawned item. (Lao, 2005) In other words, economic rationale for higher rates based on borrower risk does not apply to pawnshop loans. (Johnson & Johnson, 1998) The credit risk has been eliminated because the loan is secured by a pledge of an asset placed in the inventory of the pawnshop. The risk is not with the borrower, but with the ultimate market value of the item pledged if the loan is not repaid. (ibid) Banks are the most important financial institutions of today, but economist will have a very incomplete understanding of credit markets if attention is not also given to the financial markets faced by those operating independently of the banking system. (Caskey, 1991)

Nowadays, charitable groups and governments in Europe and Latin America often operate non-profit pawnshops as a public service. (Caskey, 1991) In the United States, pawnshops are mostly privately owned and ran in a profit building manner. (ibid) During the end of the 20th century, the United States have seen a substantial growth of the pawnshop business. (Johnson & Johnson, 1998) The most important reason for this is thought to be a liberation of pawnshop regulation. The demand for pawn services had always existed, and growing, but laws prevented private industry from supplying the services in a rate needed to meet that demand. Studies has shown that laws restricting the interest rates that pawnshops may charge or increasing their costs of providing services will limit the number of pawnshops and restrict their supply of pawn services. Liberation of these laws allows new pawnshops to enter the business and existing firms to open new offices. (ibid) Numerous pawnshops is beneficial to the customers. (Lao, 2005) Since pawn loans are generally small the transportation cost per dollar of credit is high. (ibid) Therefore, it hardly pays for customers to drive long distances into a city for such a small pawn loan. (Johnson & Johnson, 1998)

The increasing demand for pawnshop service has resulted in pawnshop chains. (Johnson & Johnson, 1998) One example of that is Cash America International, which is the industry leader. (Oeltjen, 1996) The company operates several hundreds of pawnshops. During the years 1994 to 2004, this included “Svensk Pantbelåning”, Sweden’s biggest pawnshop chain. (ibid) Big chains of this kind grew both by acquiring existing pawnbrokers and by opening new offices. In this process, the chains improved the image of the industry by making pawn services more attractive and more efficient. This created a competition that challenged family owned pawnshops to modernize as well. They located their stores in convenient locations and made them clean, inviting and brightly lit with adequate parking. Management invested heavily in training personnel. To some extent, the modernization of pawnshops by the chains attracted customers from other pawnshops, but also brought new borrowers into pawnshops. (ibid)

Pawnbrokers lend only on the basis of collateral left in the broker’s possession. (Caskey, 1991) Therefore the pawnbroker focuses on a careful examination of the collateral, instead of on the risk of giving a credit. (ibid) With such a wide variety of items pawned, managing a pawnshop requires intensive training and some fairly unusual skills and great caution.

(Johnson & Johnson, 1998) Some idea of the hazards faced by pawnbrokers may be gained from excerpts from the publications of the national and state pawnbroking associations. Pawnbrokers are cautioned to note any defects in the item pawned in order to avoid disputes with the customer when he or she redeems the item. If a stone looks like a ruby, but is not a ruby, that would be noted on the pawn ticket as well. (ibid) The process of pawning is usually handled within 10 minutes and stretches over a period of one or several months. (Caskey, 1991) Often, the loan can be prolonged by the paying the interest for the additional time the loan is active. However, many loans are redeemed within one or two weeks. The size of the loan is a percentage of what the pawnbroker believes that the collateral would bring in, in case of a sale. (ibid)

Small pawnshops have to rely on the judgment of their managers to appraise the loan value of a wide variety of consumer products. The chains, on the other hand, built central data banks accessible by computers in the shops to assist in appraisals. (Johnson & Johnson, 1998) For example, the chains can provide managers with estimates of the loan value of diamonds of a certain quality and weight. As the size of stores grew and chains developed, it became essential to develop sophisticated computer systems to keep track of transactions. Such systems provide current data critical to management. They also reduce the cost of providing services and enhance the image of the pawnbrokers with their customers. (ibid)

1.2 Problem discussion

Even though not all small businesses want to grow, all businesses need to adapt to changing environments and changing customer needs. (Watson et al, 1996) Marketing facilitates this process. However, among SMEs there is a strong tendency to regard traditional advertising as being ineffective and a waste of money. It is also considered that “word of mouth” communications is appropriate and by far the best method of promoting their businesses and gaining new customers. There is evidence that small business failures can result from a lack of marketing, or poor marketing practice. (ibid) Simpson & Docherty (2004) suggest a presence online as an attractive solution for these issues. For example, advertising costs can indeed be reduced. (ibid) For some companies the motive of being online lacks vision of how it will create value. (Earl, 2000) Instead, they are contempt with signalling that they are a modern company. (ibid) Some of the specific reasons for adopting e-commerce mentioned by Simpson & Docherty (2004) are:

- The need for better communications
- Organisational readiness and external pressures
- To increase sales
- Impression management
- Advertising costs can be reduced
- To improve communications with customers
- External pressures from a new type of customer value proposition
- To enhance customer relationships

These possibilities do not threaten or sacrifice a firms traditional qualities or working practices since e-commerce can only add to these. (ibid)

Electronic commerce present many opportunities for businesses to improve their performance. (Simpson & Docherty, 2004) New business models are being considered that make shopping a more convenient and comfortable experience with lower prices, customised products and

integrated offerings, something that traditional commerce cannot hope to compete against. (ibid) According to Simpson and Docherty (2004) Porter's five forces model (a well-known and accepted competition analysis model) argue that e-commerce creates almost perfect competition as barriers of entry are reduced, transaction costs lowered, customers are able to obtain better access to information, customer driven pricing is possible and all with the minimum of legislation and regulation. In addition, low entry costs leading to an early return on investment whilst safeguarding such investment was seen as a major attraction of e-commerce. (ibid)

The potential benefit of e-commerce for businesses is larger market penetration and sensitivity to customer needs. (Simpson & Docherty, 2004) In e-commerce, national and regional borders is generally not an issue at all, neither are the distances and time zones. (Kyambalesa, 2000) Large numbers of potential customers surf the Internet daily. Internet users seek a wide variety of products and services, both digital and physical. Therefore, Internet users represent a significant addition to potential customer bases for both small and large companies world wide. (ibid) Also, the Internet offers added flexibility and reduced costs. (Simpson & Docherty, 2004) The Internet is overwhelmingly more efficient than such traditional channels of communication as the radio, television and print media. (Kyambalesa, 2000) The Internet can enable businesses to communicate more efficient with potential customers, in terms of time, cost and personnel requirements. Also, the Internet can eliminate some or all marketing intermediaries and the cost of distributing products through them. Together, these benefits can ultimately lead to protracted and enhanced profitability for a business of any form and size. (ibid)

Regardless to the benefits of the Internet, there is a strong indication that SMEs are slow in adopting e-commerce. (Simpson & Docherty, 2004) Taylor & Murphy (2004) support this by saying that, for most SMEs, going beyond usage of email or setting up a simple website is barely on the agenda. An adoption of e-commerce can actually be a result of an external pressure brought about by a new type of customers and their demands. Responding to competitors was also likely to be an important driver towards the adoption of e-commerce. (ibid)

There are significant barriers that SMEs face when adopting, or wanting to adopt e-commerce. (Taylor & Murphy, 2004) One of the most important barriers observed is the lack of understanding of the potential that the Internet and e-commerce offers. Business owners assume that the existing technologies and techniques are not applicable to the products and services that they offer. If the potentials are realized, the immediate following barrier is the lack of necessary understanding and skills to pursue an e-strategy. This can be solved by hiring external help but it can prove to be too difficult (due to the lack of understanding) or too expensive. SMEs must also account for the possibility of additional start-up and on-going costs. Finally, SMEs often can not afford to experiment. Due to narrower economic resource limits in small firms investments have to work and produce positive result. (ibid) In addition to the barriers, research shows that older SMEs are less likely to use e-commerce. (Simpson & Docherty, 2004)

Contrary to assumptions that (information) transactions through exchange mechanism are homogeneous, real-life transactions are more complex and involve transaction cost. (Pant & Ravichandran, 2001) It is suggested that integration of organizational processes significantly reduces transaction costs. Information technology has the ability to lower coordination costs without increasing the associated transaction risks. The potential to lower transaction costs by

using information technology presents a significant strategic opportunity that organizations must exploit to succeed in the new economy. (ibid)

E-businesses are attempting to use the Internet to seamlessly integrate enterprise systems, databases, and workflows across organizational boundaries and planning frameworks. (Pant & Ravichandran, 2001) These organizations must explicitly account for the technical and organizational challenges involved in effective information integration, using Internet technologies in their information architecture development strategies. (ibid)

In designing the information infrastructure, organizations must try to build in capabilities to develop, sustain and rapidly grow a user community. (Pant & Ravichandran, 2001) Communities grow through positive feedback, which is self-perpetuating. On the other hand, negative feedback can lead to a community not reaching a critical mass necessary to make it an economically attractive business asset. Thus, organizations have to pay particular attention to creating the informational resources and flexible ways to create, share and disseminate these resources throughout the community. Moreover, issues such as interface design take on added importance when an organization needs to rapidly build a user community to sustain its e-business model. (ibid)

Often the informational component of the business is valued higher than the rest of the business. (Pant & Ravichandran, 2001) Such valuation is in part because separation of the informational component of a business provides opportunities to turn information into a product or service. Information can be sold for profit or given away free, and the economics of such business models is very attractive due to the unique characteristics of information products. First, information is costly to produce but has nearly zero marginal cost to reproduce. Secondly, sharing information results in value enhancement for both the sender and the receiver of the information. Third, information goods and services must be priced based on the value they hold for users and not based on the costs of producing/reproducing the information. These characteristics make selling information products a relatively scalable and high-margin business. (ibid)

1.3 Research purpose

Being online results in new information flows and transactions and therefore additional cost, which can be reduced if handled and integrated properly. SMEs have more potential on the Internet than they are using but are seldom willing to experiment due to limited resources. Pawnbroking business, however, has unique processes that emerged before the Internet era. Based on this, the research purpose of this thesis is to investigate and, if possible, suggest possible improvements.

1.4 Research question

The research question in this thesis is as follows.

RQ: How can pawnshop specific processes be adjusted to incorporate the usage of Internet?

1.5 Limitations

This thesis is written in Luleå University of Technology in Sweden. In order to remain consistant, only Swedish pawnshops will be studied and therefore only Swedish law and legislations will be reviewed.

1.6 Thesis outline

This thesis is divided into six different chapters. In the first chapter the reader is introduced in the pawnbroking business, both historically and how the business is run today. The introduction is followed by a problem discussion, which leads to the research problem, and at the end narrowed into a research question to investigate. In chapter two previous literatures in the research area is presented, and a conceptual framework is provided. Chapter three describes and justifies the methodology used to conduct this thesis. In chapter four the empirical data that has been collected is presented. The empirical data is analyzed and compared with theory in chapter five. And finally in chapter six findings and conclusions are drawn based on the findings in the research done.

2 Theoretical review

This chapter will review the theories found regarding the topic of this report.

2.1 Pawnbroking business and legislations

Pawnbroking is a business activity with the purpose of lending money to costumers with the customers' property (primarily tangible property) as collateral. (NE, 2006) The Swedish pawnbroking business is strictly regulated by a pawnshop law, *Pantbankslagen (1995:1000)*. The county administrative board is monitoring the business. One of the purposes is to prevent turn over of stolen goods. (ibid)

2.1.1 The lending process

Svenska Pantbanksföreningen (2006) describes the loan process in a Swedish pawnshop as:

On the contrary from a traditional bank no customer credit examination is made, neither will a pawnbroker ask what the loan will be used for. The only condition is that the customer is 18 years of age and can show a valid photo indentification.

When a customer visits a pawnshop, he or she is met by a clerk that is a professional valuer. The task of the valuer is to assess the auction value of the pawn item that the customer want to use as collateral in order to make a loan. Based on this, the valuer decides on the size of the loan. The customer receives the loan immidiately, in cash. The entire transaction seldom takes more than a couple of minutes.

A loan spans over a number of months, usually four, but a customer can redeem his or her collateral earlier. To do this, the customer must repay the loan with interest. Every pawnshop states their own fees. However, the loan costs usually 3% of the loan, per month.

If a customer is not able to repay the loan with interest within a predetermined frame of time, the loan can be renewed by paying the fees and interest that have built up over time. When the loan period is near it's end, the customer is reminded about the loan. If the collateral is not redeemed within two months after the due date, the collateral may be sold during an auction.

If the pawned item is sold with surplus then the customer is entitled to that surplus within one year from the auction date. If auctioning of the collateral results in a deficit, the pawnshop is sollely responsible for the loss. The customer will never be charged for any losses. (ibid)

2.1.2 The pawnshop law

This subchapter focuses on parts of the pawnshop law Pantbankslagen (1995:1000) that concern every day processes within an active and legally run pawnshop. For the pawnshop law in its entirety, see Appendix XX.

Näringsdepartementet (1995) defines pawnbroking as a business activity with the purpose of lending money to costumers. The collateral, pawn, is the customers' property, primarily tangible. A pawnshop is a company that practices pawnbroking.

Lending regulation

A borrower, i.e. the customer, may lend money with pawn as the only collateral. The loan period may not be longer than one year. The borrower must be 18 years old and be able to identify oneself in reliable way. The pawnshop is not obliged to request identification if the borrower is known by the pawnshop staff. In addition to this, the pawnshop has to request information regarding the location where the borrower can be reached for notifications.

The pawnshop is obliged to store the information in a pawn book. The borrower must be provided with a pawn ticket as proof of the pawning transaction. The pawn ticket must contain information about:

- the id number used for the loan in a pawn book,
- the day of the pawning and the loan expiration date,
- the loan amount and interest as an amount
- other fees surrounding the loan presented as amount and other conditions regarding the loan
- description of the pawn

The borrower is not forced to pay back the loan. If the borrower decide to buy out the pawn he or she must do so before the end of the lending period by paying back the lendend amount together with an interest and possible fees stated by the pawnshop.

If the pawn is not redeemed within the given time for the loan the pawnshop may sell the collateral. However, the pawnshop may not sell the pawn until two months after the due date of the loan, unless the borrower has expressed their permission for an earlier selling. The pawnshop is entitled to a penalty interest for the time after the due date but only for a maximum of four months.

Auction regulations

Selling unredeemed pawn may only be conducted at a public auction The pawnshop must make an announcement about an upcoming auction in a newspaper within the city or area of the pawning. This announcement must be made at least eight days before the auction. The borrower must also be informed. This must be made explicitly and individually, well in advance before the auction and in a proper way.

The auction must be held in the city or place where the pawning was made, unless the borrower allows the pawn being sold in another city or place. A pawnshop itself is allowed buy a pawn during the auction. The pawnshop is then allowed to sell that pawn over the counter.

If the pawn consist of security quoted on the swedish or foreign stock exchange, an authorized marketplace or other regulated market, the selling is to be done thru a securities firm and to a current price on the stock exchange or market.

If the pawn is sold with surplus, then the borrower is entitled to that surplus. If the surplus is 100 SEK or below, the borrower is entitled to payment on demand at the pawnshop. If the

surplus exceeds 100 SEK, the pawnshop must inform the borrower as soon as possible that a surplus of this kind exists and make a payment in a proper way. Surplus that has not been able to be paid within one year from the selling date goes to the pawnshop.

Pawn book regulations

A pawnshop must use a pawn book. The pawn book is a continuous registry of all pawn transaction. The Swedish government is allowed to prescribe which information that must be noted in the pawn book.

The information stored in the pawn book must be preserved for five years counting from the calendar year when the information was brought in. If some information must be stored longer time according to other constitution, then the pawnshop must store the information for that longer time.

Information regulation

All occurrences of obligation to inform the borrower are considered as fulfilled, if the information is sent with certified mail to the address provided by the borrower or other address that is known by the pawnshop.

Confidentiality

Information about specific customers' personal and economical situation is confidential. The pawnshop may not spread it without authorization.

Other regulations

A pawnshop may not run any other business in addition to the pawnbroking business except selling items that where bought by the pawnshop itself during their own auction.

A pawnshop must be run I a manner which will support a public trust for the business and that the business can be considered as healthy. The pawnshop is under the supervision of the of county administrative board to ensure that a healthy development of the company is promoted and must provide the county administrative board with the information that board feels is needed. The pawnshop is also obliged to hand over information from the pawn book to the police authorities.

2.2 SWOT

According to Jobber (1998) a SWOT analysis is a structured approach to evaluating the strategic position of a business by identifying its strengths, weaknesses, opportunities and threats. (see Tabel 2.1) According to Kotler *et al.* (2001), SWOT is a tool for managers to use when they need to find out the main opportunities and threats that their company faces. The purpose with SWOT is to create awareness regarding possible impacts on the firm and how to attack and make them harmless over time. It is important to evaluate threats and aim for preventing the ones that could do most harm. (ibid)

Tabel 2.1 SWOT

Strengths	Weaknesses
What internal strengths from our side do the competitors have to deal with if they want to get ahead of us?	What internal weaknesses do a company have to deal with to receive competitive advantages?

Opportunities	Threats
<ul style="list-style-type: none"> • Economic climate • Demographic changes • The market, Technology 	<ul style="list-style-type: none"> • Competitive activity • Channel pressure • Demographic changes • Politics

Source: Based on Kleindl (2001)

A SWOT analysis summarizes the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development. (Johnson et al, 2005) This can also be useful as a basis against which to generate strategic options and assess the future courses of action. The aim is to identify the extent to which the current strengths and weaknesses are relevant to and capable of dealing with the changes taking place in the business environment. However, if the strategic capability of an organization is to be understood it must be remembered it is not absolute but relative to its competitors. SWOT analysis is really only useful if it is comparative. That is, if it examines strengths, weaknesses, opportunities and threats relative to those of competitors. (ibid) Therefore, if everyone is produces high quality products, then it is not a relative strength. (Jobber, 1998) However, two lists should be made based on relative but also absolute strengths and weaknesses. An absolute strength or weakness should be address simply because exploiting them in the future might create a new relative situation. An example of an absolute weakness is if competitors suffer from the same weakness as oneself. If this weakness can be overcome, then a new strength is created. Jobber (1998) also adds that only those strengths and weaknesses that are actually affecting the customers should be assessed. Some strengths and weaknesses are only perceived by the company itself but do not actually matter for customers' satisfaction. (ibid)

Regarding opportunities and threats, Jobber (1998) emphasizes that those characteristics must concern events and trends outside the business. Opportunities and threats are external only and must therefore not concern internal strategies. Instead, it must focus on the external environment and its' possible effects on the business performance. (ibid)

In order to exploit opportunities to gain competitive advantage it is very important to act quickly. Internet makes it easier for competitors to monitor each other, therefore the competitive advantages are often short lived.

Overall, a SWOT analysis should help focus discussion on future choices and the extent to which an organisation is capable of supporting these strategies. (Johnson et al, 2005) But there are some dangers with SWOT analysis. These are:

- A SWOT analysis can generate very long lists of apperent strengths, weaknesses, opportunities and threats. The important thing is to focus on what is very important and not focusing on small, trivial things.
- A SWOT can lead to excessive generalization. Looking at very general explanations of strategic capability will have very limited explanations of the real reason for that capability. What this says is that a SWOT is not a substitute for deep analyses and evaluations of an capability. SWOT analysis is this for comperative purposes only. (ibid)

2.3 Conceptual framework

Figure 2.1 shows how theories and models described in the theory chapter is going to be used and how the study will be conducted to be able to fulfil the purpose and answer the research question.

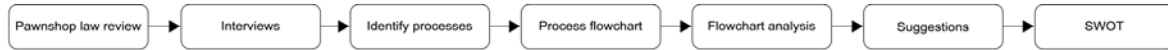


Figure 2.1 Conceptual framework

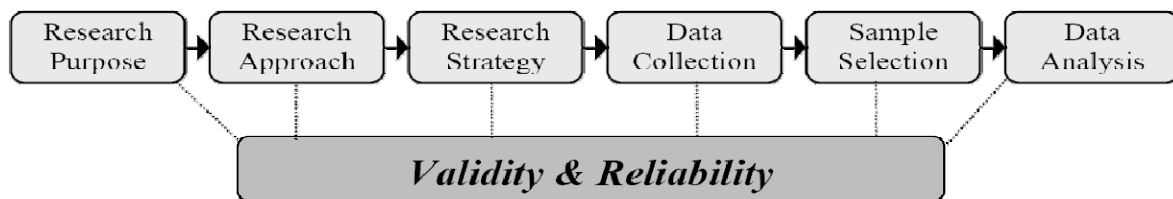
The Swedish pawnshop law describes and explains how the pawnbroking business should be run regarding regulations in law. With existing theories and laws as a basis, the interview guide will be created. Interviews will be conducted to try to answer how the business works in general, how the pawnbrokers handle the exiting laws and rules and if there are procedures done that are not stated in the law but is seemed as a good custom in the pawnbroking business.

By using information collected during the pawnshop law review and interviews pawnshop specific processes will be identified and drawn into flowcharts for better understanding and overview. The flowcharts will be analysed and used as source for selecting what should be improved. Suggestions will be made and defined. Finally, the suggestions will be analysed using a SWOT to get a preview of their potential.

3 Methodology

This chapter explains and justifies the choices of methodology approaches taken to be able to answer the posed research question. The chapter gives the reader sufficient information about the methods to be able to measure reliability and validity. According to Ejvegård (2003), the awareness of choosing a method and how use the method is an important way to strive to be scientific.

Figure 3.1 Methodology framework



Adopted from Tim Foster, 2005

Figure 3.1 Methodology framework shows the frame that was followed when writing the methodology chapter to maintain validity and reliability of the research study.

3.1 Research purpose

According to Saunders et al. (2003), studies can be classified either in terms of their purpose or as the used research strategy. A descriptive research is to portray an accurate profile of persons, events or situations. (ibid) According to Patel & Davidsson (2003), a descriptive research is the same as describing a phenomenon. The descriptions can be about conditions that has occurred, or an existing condition. With a descriptive research, the research is limited to a few aspects of the chosen phenomenon. (ibid) The descriptive approach explains the chosen phenomenon in “Why?” and “How?” terms. (Ejvgård, 2003) A descriptive approach gives the opportunity to study and describe the phenomenon during existing conditions. Furthermore is it possibly to limit the problems down to a few which simplifies a deeper study instead of study the phenomenon wide and superficially. The study aims to portray the pawnbroking business and describe how is performed. As more than one case study object will be used, a descriptive approach will be suitable because the same phenomenon will be studied but from different aspects.

3.2 Research approach

The research approach is explanatory which means finding out ‘what is happening; to seek new insights; to ask questions and to assess phenomena in a new light’. (Saunders et al. 2003) The explanatory approach is useful then wanting to clarify an understanding of a problem. Exploratory research can be likened to activities of a traveller or explorer. (ibid) As this study has no well-established and very little existing theories this research is exploratory. The aim of the study is to to investigate in what way the Internet can be used for processes that are characteristic for pawnbroking. The conclusions will be drawn by comparing the empirical data with existing theories.

Qualitative research seeks to gain a better understanding of complex situations. (Leedy & Ormrod, 2005) The work is often explanatory in nature and the observations are used to build theory from the ground up. (ibid) A qualitative method is very limited in the way it is formalized and has, primarily, a comprehending purpose. (Holme & Solvang, 1997) The central in this method is to collect data to gain deeper understanding of the studied phenomenon, and to

describe the whole of the context that the phenomenon exists in. The method is signified by closeness to the source where data is collected from. When using a qualitative method, the researcher tries to look at the phenomenon from the inside. With that as a starting-point, the researcher tries to create a deeper and more complete picture of the phenomenon. (ibid) A quantitative approach is a research method that implies measurements when collecting data and statistical way of analysis the data. (Patel 2003) The researcher collects the empirical data systematically and summarizes them in a statistic form and then analyzes the result starting from hypotheses that can be tested. (NE 2006-10-18) The pawnbroking business is a complex business situation and since it is hard to describe it with numbers, the qualitative approach suits this study. The study will be done on two different pawnbrokers who will be deeply investigated instead of trying to do the research on all pawnbrokers in Sweden. With only two case studies it will be possible to dig into the business instead of doing the research superficially. The aim is to gain a deep understanding about the pawnbroking business to be able to suggest how offline processes can be performed online and how existing online processes can improved or changed. The result will be shown in flow-charts.

3.3 Research strategy

The research strategy will be a plan of how the researcher will get answers to research questions stated. (Saunders et al. 2003) It will contain clear objectives specify the sources were to collect data, and consider the constraints that the researcher certainly will have. It should also reflect the fact that the researcher has thought carefully about why applying the particular strategy, there must be valid reasons for all research strategies and the justification should always be based on the research questions and objectives. (ibid) When to choose which research strategy to use it is important to know that each of the existing research strategies has different ways to collecting and analysing empirical evidence, following its own logic and has its own advantages and disadvantages. (Yin, 2003)

3.3.1 Case study

Case study is defined as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context, using multiple sources of evidence. (Saunders et al. 2003; Yin, 2003) In a case study the object is studied in depth for a defined period of time. (Leedy & Ormrod, 2005) A “case” can be a situation, an organization, and, or a group. (Patel & Davidsson, 2003) The purpose of making a case study is to take a small part, a case, of a big population and with that specific case describe the reality where the reality is assumed to be represented by the case (Ejvegård, 2003). This strategy is interesting if the researcher wish to gain a deeper understanding of the context of the research and the process being enacted. (Yin, 2003) The case study strategy gives answers to question “why?” as well as “what” and “how?” questions. The data collection may be various and can include questionnaires, interviews, observation and documentary analysis. (Saunders et al. 2003; Yin, 2003) As a research strategy the case study is used in many situations to add knowledge of individual, group, organizational, social, political, and related phenomena. (Yin, 2003; Leedy & Ormrod, 2005) To make comparisons, or propose generalizations the researcher studies two or more cases that are different in certain ways. (Leedy & Ormrod, 2005) Since this research aims to investigate the pawnbroking business in its real life context (eg. how the business is performed regarding laws and customs) by interviewing three pawn brokers a case study suits as the research strategy for this study. Another point that makes it relevant to do a case study is the fact that the research question is stated with a “how”. Because of time limitation we do not have the possibility to investigate all pawn brokers there is consequently will the chosen cases represent the pawnbroking industry. To keep the study at a

manageable level, only the processes characteristic for the pawnbroking business will be selected and used in the case study.

3.4 Data collection

In qualitative research the potential sources of data are limited only by the researcher's creativity and open-mindedness. (Leedy & Ormrod, 2005) With a qualitative direction is the researcher focusing on collecting soft data by doing qualitative interviews and interpreting analysis. (Patel & Davidsson, 2003) An interview is a purposeful discussion between two or more people and the use of *interviews* can help the researcher to gather valid and reliable data that are relevant to objectives and research questions. (Saunders et al., 2003; Leedy & Ormrod, 2005) The interview should be consistent with the research questions and objectives, the research purpose and the adopted research strategy. (Saunders et al., 2003) It is important that the interview is ethical correct and that the people being interviewed is fully aware of the nature of the study. (Leedy & Ormrod, 2005) According to Yin (2003) is it very important to be well prepared when doing the data collection. The researcher should develop a protocol and perform a pilot case study. (ibid) There are several types of interviews and they might be held highly structured, using standardised questions for each respondent, or informal and unstructured conversation. (Saunders et al. 2003)

In a *semi-structured interview* the researcher has a list of themes and questions to be covered and these may vary from interview to interview, the order of the questions may also vary. (Saunders et al., 2003) This means that the researcher may omit some questions depending on the respondent. Semi-structured interviews are used in qualitative research in order to conduct discussions not only to reveal and understand the 'what' and the 'how' but also to place more emphasis on exploring the 'why'. (ibid) The empirical data will be collected by doing semi-structured, open interviews with several pawn brokers. The advantage by doing semi-structured interviews is that it gives us possibilities to see the research area from another angel, and therefore be aware if we have missed something fundamental or have ignored something crucial for the research. When using the law as a foundation for the interviews it will show how the business is run according to law and what the business custom is. The law will also help to state the right question needed to locate processes that are characteristic for pawnbroking. To make sure to be able to compare the different pawn brokers the question will be written down in advance.

3.5 Sample Selection

Another important step in the case study is to choose the individuals or organizations which will serve as your case study. (Yin, 2003) Sometimes it is easy because the research builds on a unique case or the researcher have made special arrangements or have access to a specific case. At other times there might be several candidates that fit the case study and then the researcher has to choose. The goal of the screening procedure is to be sure to identify cases which suit the formal prior of the data collection. (ibid) The criteria for choosing research object and the purpose of the criteria are:

Criteria	Reason for criteria
Must be a Swedish pawnshop	The pawnshop must be working according to the Swedish pawnshop law. We must know that the pawnshops deal with the same conditions and are facing the same challenges
Must have an active commerce online in the form of selling and / or conducting auctions.	Since this research focuses on the Internet, we request answers from pawnshops that are familiar with the Internet and have experience of it from a selling company's point of view.
Must have had an active commerce online for at least one year.	We want answers based on at least some experience. We want to avoid answers that are based on guesses only. The assumption is made that one year is enough to gain a level of experience that is accepted for this research. A longer experience would be better but Internet being relatively young does not permit us to be too selective.

3.6 Data analysis

After the case study is done, the collected data has to be structured and organized (Backman, 1998). There is no single right way when to analyse the data in a qualitative study (Leedy & Ormrod, 2005) The researcher begins with a large amount of data and then sort and categorize it to gradually reduce it a small set of abstract, underlying themes. (ibid) Qualitative data is associated with their richness and fullness based on the opportunity to explore a subject in as real a manner as is possible. (Saunders et al., 2003) The nature of qualitative data has implications for both its collection and its analysis. To be able to capture the richness and fullness associated with qualitative data it cannot be collected in standardised way, like that of qualitative data. (ibid) The analysis for a qualitative study is a complex and time-consuming process. (Leedy and Ellis, 2003) The researcher must go through a great deal of information, some that will be useful and some of which will not. The obtained data will be multifaceted and may reflect several different meanings simultaneously. (ibid)

An established technique for analyzing a case study is cross-case analysis. (Yin, 2003) When empirical pattern fits with already known patterns it will help to strengthen the case studies internal validity. The cross-case technique is relevant to use when a case study comprise two or several companies and this analysis technique clears similarities and differences between the different cases. To have more than two cases strengthens the reliability and the validity of the research. The cross-case analysis can be used no matter if the case studies were performed independently or as parts of the same study. The technique will treat the study or studies as separate cases, no matter how the study or studies has been performed. (ibid) The analysis will be performed as stated in Figure 2.1. The cross-case analysis suits this research study since we are going to study two different pawn brokers and compare them with each other and with the theory. To be able to compare and draw conclusions, the collected empirical data will be structured and categorized to look the same. Flow charts will be drawn to show processes that are specific for the pawnbroking business. The flow charts will help us to see were improvements can be suggested regarding the information flow, if there are activities done manually that can be done automatically and if there are processes that might be connected.

The cross-case analysis will help us to see the differences and similarities between the single cases.

3.7 Reliability and validity

According to Saunders et al. (2003) it is possible to reduce getting the wrong answer by paying attention to two particular emphases on research design: reliability and validity. It is impossible to be certain to get all the answers and results correct and this is way it is important to have a convincing research design. (ibid)

3.7.1 Reliability

Reliability can be assessed by posing the following questions: (Saunders et al. 2003)

- Will the measures yield the same results in other occasions?
- Will similar observations be reached by other observers?
- Is there obvious how the raw data was interpreted? (ibid)

Reliability states the trustworthiness and the usefulness of a guideline and the unit of measurement. (Ejvegård, 2003) The reliability is high if the same study can be repeated, with the same operations, and come up with the same results. The best way of approaching the reliability problem is to work as if someone is looking over your shoulder the entire time, and therefore make as many operational steps as possible. A good principle when doing case studies is to perform the research so that anyone else can repeat the operations and get the same results. (Yin, 2003) Low reliability gives low validity, but high reliability is no guarantee for high validity. To know what is measured the measuring techniques have to be reliable and be performed in a reliable way. Complete reliability is a condition for complete validity. (Patel and Davidsson, 2003) The reliability was strengthened by following an interview guide, that was created with the Swedish Pawnbroking law as a found, during the interview and more than one company was used as case studies. The questions did not contain any leading questions and were held as objective as possible. All the interviews were conducted in the same way and the questions were sent to the companies in advance so they were able to prepare themselves before the interview actually took place. The different cases were compared through cross-case analysis, and differences and similarities were revealed. All methods for data collection were strictly followed and no own assessments were allowed during this process.

3.7.2 Validity

Validity is concerned with whether the findings are really about what they appear to be about. (Saunders et al. 2003) According to Leedy & Ormrod (2005), there are two questions that needs to be asked when consider a research study's validity: Does the study have sufficient control to ensure that the conclusions we draw are truly warranted by the data? and, Can we use what we have observed in the research situation to make generalizations about the world beyond that specific situation? (ibid) Validity states a questions ability to measure what it is supposed to measure (Patel and Davidsson, 2003; Yin, 2003; Ejvegård, 2003)

The Internal validity of a research study is the degree to which its design and the data it yields allow the researcher to draw truthful conclusions about cause-and-effect and other relationships within the data. (Leedy & Ormrod, 2005) To ensure the internal validity of the study the researcher has to take precautions to eliminate other possible explanations for the observed result. One way to strengthen the internal validity of the research is to use triangulation, which means to collect data from multiple sources with the hope that they will all converge to

support a particular hypothesis or theory. (ibid) The internal validity in this research is strengthening by collecting data from two different pawn brokers. If the same conclusions can be drawn from both pawn brokers asked is this a sign that the internal validity is high in this study.

The External validity of a study is to which degree the conclusions drawn can be generalized to other contexts. (Leedy & Ormrod, 2005) If the results is applicable beyond the immediate case, which is important to check because a single case offer a poor basis for generalizing. (Yin, 2003) One way to strengthen the external validity is to select a few objects from a particular category and use them as a representative sample, study them and then draw conclusions about the category as a whole. (Leedy & Ormrod, 2005) The external validity is strengthening by using more than one case study object. Since the time is limited only two pawn brokers will be used as case studies and they will be assumed to represent the category as a whole. Conclusions will be drawn from these cases and the conclusions will be assumed to be applicable to pawn brokers.

4 Empirical data presentation

The empirical data presentation consists only of data relevant for answering the research question. The entire information collect can be find in Appendix 3.

4.1 Empirical data for Jemtlands Pantbank AB

The following empirical data was collected during several interview sessions made by telephone with Björn Markström, owner of Jemtlands Pantbank AB. The telephone sessions where held between the 18th and 22nd of November 2006. In the following empirical data, Björn Markström will be referred to as “the owner” and Jemtlands Pantbank AB as “the pawnshop”. For original notes taken during the interview session, please see Appendix 3.

Answers to General Questions

The pawnshop was registered in 1985. The owner took over the business from an earlier owner at the beginning of 1986 as he was tired of his previous career and elected to manage a pawnshop as a means to trying something new.

The owner sees the business as having great potential and developmental opportunities in several areas including:

- Developing knowledge about products,
- Finding new borrowing customers and
- Marketing.

The owner explains that only imagination sets limits. The business does, however, also have a potential to attract dishonest pawnbrokers.

According to the owner, any existing pawnshop niches are a result of the individuals that run them as most owners have their own areas of interest and expertise. The niche also results from the types of items customers bring to the pawnshop. The owner describes his own niche as a wide range of products, and feels he knows a little about everything. The Internet is a tremendous asset for researching prices others are charging for an item. The owner does not feel that a niche is deliberate, but that it results from owners attempting to have as wide a range of products as possible within their field of competence.

The pawnshop business is stable and is a safe investment as turnover and offices are increasing.

The law in regard to pawnshops is viewed as a hint for how to run the business. The law is primarily focused on making reasonable judgements for the sake of both the pawnshop and the customers. An example was given:

When a loan exceeds 500 SEK, the owner sends two reminders to the borrower despite the law requiring only one. The owner wants the borrower to renew the loan and thus make additional profits through interest. For a loan that is below 500 SEK, only one reminder will be sent, because the interest from that loan is too low to be worthwhile.

Some things in the law are never questioned or changed.

The pawnshop uses three computerized systems:

- Loan program
- Auction program
- Website with web-based bidding system and other functions.

The loan and auction program are run on the same computer which is not connected to the Internet for security reasons.

Description of the lending procedure

The owner categorizes the lending procedure as three alternatives:

1. New loan

If a customer brings a bracelet, the carat, weight and condition decide how much the customer can borrow. The owner uses his own knowledge to make the judgement. Gold is valued based on its daily rate. In the beginning, this was a difficult task to manage for the owner.

A valuation that is too low produces a smaller loan and therefore less interest. The owner describes this as a balance walk. For support, the owner often uses the Internet to view other auctions. The website, www.kaplans.se, is frequently used as it contains the prices for gold and precious stones. The owner avoids accepting electronic products as collateral because he feels the electronics business is constantly updating and changing. The owner generally offers a small loan anyway by under-valuing the collateral. The customer is free to depreciate the article if he or she wishes. This might happen if the pawn is worth more than the customer needs to borrow and if they want to avoid interest.

After valuation, the customer information is entered into an electronic system (computer program) together with information about the pawn and the loan. The owner bought his e-system on January 21, 1993. Previous customers already exist in the system, and customer identification requires a photo ID, drivers licence or a passport. A customer the owner already knows does not have to identify himself.

When the registration is complete, a pawn ticket is printed. The pawn ticket has a strip with information about the pawn which the customer signs as an assurance that the item is his. According to the owner, most pawnshops do not ask for a signature. The remaining part of the pawn ticket is given to the customer. Both tickets contain the same information required by law, with the signature as the only difference. After registration in the system, the customer receives the money and pays a service charge.

2. Turnover

Turnover occurs when the customer visits the pawnshop, pays accrued interest, and obtains a new pawn ticket. The pawnshop owner brings up the loan in the computer program with the help of the loan number. The old loan is filed but the data is automatically reused to create a new loan with a new loan number. A window in the programs opens to facilitate changes. The remainder of the procedure is identical to that of a new loan unless the customer seeks to increase the loan amount with the owner's approval and receives additional money.

3. **Increase / Instalment / Derogation**

The above procedure is used, but the loan amount is changed.

After the loan expires, the owner is obliged to wait two months before selling the item.

There are not additional procedures done by custom, but not required by law. However, if a regular borrower has not redeemed his pawn on time, but has managed everything well, the owner does not sell the pawn at the first possibility. This gives the borrower more time, and the pawnshop has the right to collect more penalty interest.

Conducting auctions

When a substantial amount of loans have expired, a reminder is sent out by e-mail, to those who have accepted this, and by regular mail. For the email reminder, the pawn program generates a list of borrowers who have accepted email reminders. The list also contains a summarization of the loan. This list is exported, and then imported to the web based system. The web based system sends out a personalized email to every borrower in the list. This is done with all loans that expired prior to a “brake date.” Loans that expired after the “brake date” wait until the next auction.

The owner moves pawn information to an auction program where the auction catalogue is edited. The catalogue contains a starting bid, description, and loan number for every pawn. A pawn that consists of several items, such as several gold rings, can be split up, but items may not be put together. A loan is not initially divided into individual articles as few actually go to auction. To divide the items would be a waste of time.

The loan and auction program is run on a computer that does not have access to the Internet. Because of this, the auction catalogue is exported onto a floppy disc and moved to another computer with Internet access. The catalogue is then imported into a website. When the importing takes place, the dates and time for the bidding start and stop can be set. Product pictures are taken and uploaded.

The law requires an announcement be put in the local paper. The announcement has to be made in a newspaper where local authorities usually make their announcements. The owner sees this is an old formulation in the law, but he follows it. The purpose of the law is to warn customers the owner has not managed to reach, but this is not a modern issue. The owner picks the most circulated newspaper in order to also reach potential bidders. Now that the owner has a homepage, he also puts ads in newspapers of other counties.

When the items open for bidding, an e-mail function in the website system sends a message to registered users on the website. Because the product information exists online, the owner lets it manage itself. During the auction, the owner is contacted by customers with questions regarding products by phone, e-mail and visits to the pawnshop. All the bidding is made online and because of this, the owner has set up a computer in the pawnshop that customers can use for bidding.

The owner points out that the pawn may not be improved or deteriorated, just “dusted off”. He also lets the borrower redeem his pawn until the last minute of the auction. If this happens the auction for that particular pawn is stopped.

The results from the website auction are manually entered into the auction program. Information entered includes whether the pawn is sold or purchased by the pawnshop, and if sold the price is included as well. The end price is calculated based on the loaned amount, interest and commission (25%). This end price goes to lender. If the surplus in the sale price is larger than 100SEK, a certified letter is sent, according to law. If the surplus is below 100SEK, the borrower must contact the pawnshop. Gold that is not sold is sorted. Objects considered to be non-saleable are sold for liquefaction. Saleable items are put up for sale in the pawn shop and on the website, and the price is often raised.

In the auction program, the end price is set. In the loan program, the loan is deactivated and archived. If a pawn was not sold in auction, it is also deactivated and archived in the archive file. The auction program has a “shopping list” containing the items purchased by the pawn shop.

In the auction program, the result of the auction is entered including partial sums (if loan was divided) and whether the pawn shop bought the items. In the loan program, the final sum is entered based on the final bid or estimated value if bought back by pawn shop.

The owner considers unsold auction items as bought by the pawnshop, and if a surplus arises when the item eventually is sold, the surplus will go to the pawnshop.

To acquire an item, the buyer must pay in advance to an account or at the pawnshop. If the item is paid for in advance, it will be sent to the customer. The owner prefers not to use the services of the Swedish Postal. He prefers services such as Bussgods (a shipping company).

At the time of the interviews, the owner has not had any returns due to customer dissatisfaction. If this were to happen and the pawnshop was to blame, the owner says that the customer get all of his or her money back. The Swedish Consumer Sales Act is customer protection in this issue, but the owner does not know how long a time of guarantee he is obliged to have. The owner requests his customers try the item at home and get back to him as soon as possible if there are any problems. The owner always informs the customer if the article is damaged in any way.

Items for sale in the pawn shop do not have a list of their own. Their existence is registered only in the auction archive as their information was entered after the auction.

Business activity constellation and profitability

Activities of the owner include:

- pawn valuation – which accounts for 15% of the entire business workload
- contacting and managing customers, which the owner distinctively points out “includes a lot of psychology” - 15%
- managing the pawn book and loans – 10%
- managing auctions - 25%
- selling – 15%
- Other administrative and janitorial activities

The simplest and most profitable transaction is for the customer to extend a loan. The next most profitable is for a customer to make a loan and then return within two or three days to redeem the loan. Many short loans mean many transaction fees. In proportion to time, auctions and selling are the least profitable methods of business.

Usage of electronic systems

The owner decided to begin using an electronic system because managing a manual system involved too much work. The owner had little real insight or control of the loans and pawn prior to the electronic system. At the end of each year, the annual accounts had to be done manually. The annual accounts include the number of loans, lent capital, accrued interest, bought out loans, interest income, loan that has been on auction and more. Doing this manually was several days of work. The current system computes this information within minutes. The owner began using an electronic system in 1992.

The biggest advantage of using an e-system is the time saved. It has removed a great deal of manual work, and the program that handles the loan actually fixes a lot of manual work. There is no bottleneck in the loan program, but in the website system, the owner would like to be able to upload several pictures at the same time, instead of one by one. The owner also suggests that the website system can be improved but does not feel comfortable with specifying details.

The owner believes that using e-systems was the right decision.

Other

When pawning, the borrower is usually charged a general fee. Sometimes larger customers are not charged the fee.

The owner believes that his electronic pawn book do not have a limitation as he can enter as many items within a single loan as he chooses.

The pawn book is archived on ZIP-discs with one separate computer file for each year. The record for the active year is built up continuously on a daily basis.

Occasionally, supervision by the county administrative board or the police occurs. When this happens, the owner gives the authorities full access to the system and let them extract any information they desire.

To protect the information about borrowers, the owner works on a computer that is not connected to the internet. The owner is also the only individual working at the pawnshop. The owner does not see his website as a security risk as it only contains information about items and bidders.

At year end, inventory is taken to estimate the value of the items in the pawnshop that have not been bought at an auction.

For selling items in the pawn shop, a traditional cash register system is used.

An annual report is made the last day of the year. The annual report contains:

- A list of all active loans printed from the loan program.
- The archive file of the current year from the loan program.
- A list with loans which had items put on an auction and the results of that (including items bought back by the pawn shop.)

4.2 Empirical data for anonymous pawn shop

The following empirical data was collected during several interview sessions made by telephone with a owner of a pawnshop. The owner choose to stay anonymous. For original notes taken during the interview session, please see Appendix 4.

Answers to general questions

The pawn shop has been run since 1984. The owner started the business because he wanted to try something new and had seen a TV program about pawn shop and thought it to be a fun and interesting business. The owner considers the business to be very conservative and that it hardly has any space at all for modernization.

Any existing niche that different pawnshops might have is a result of the people that run them and most owners have their own areas of interest and expertise. This pawn shops' niche is gold jewellery and they have choose this because it is easy to valuate and bring and they try to avoid electronic articles since they have no lasting value. The respondent considers the business to be very stable and it is not trade cycle sensitive but the loan increases as the trade cycle increases. The respondent believes that the reason that the loans increases is because people tends to be more incautious and that it is always the same group of people that never has their finances under control.

Description of the lending procedure

A person brings an article to the store and if the article is approved, it gets valued. The valuation is a short process which seldom takes more than five minutes. The valuation is based on former selling and almost always on experience or with help from another pawnbroker and when value gold or silver the daily rate is used. Today is it not as risky as it used to be to accept rare articles; because of the Internet they are always marketable some were.

When the valuation of the article is done, the pawn ticket which contains all the mandatory information according to the law is printed. A computer program is used to register and file the entire information and if the customer new information about how pawning works and what the fees are, are given. Everything is printed on the receipt and then the customer gets the money. An existing customer can choose to amortize, transform or raise the loan. In all cases the customer gets a new loan number.

As the customer buy the article out he/she return the pawn ticket, and then the article is returned to the customer. Physical letters is always sent to customers 2-3 weeks before the loan period ends and the articles can be bought out until the auction is finished.

Description of online auctions

Online auctions save a lot of money and make it easier to sell the items. When performing an online auction there is no need to involve any external auction company, which is a very good thing since they charged 10% plus VAT.

A list of all existing loans within a specific interval is printed and all loans that have an overdue is checked, this list is used to send out letters. From here, everything is done manually, but a form where only the loan number has to be written down by hand is used, the form contains information about loan overdue. The address on the envelope is also written by hand.

All articles are photographed and, if there are loans that contain several articles, they might be split up if they are going to be sold separately. When this is done everything is put in manually in the online auction system. The date that states when the article is going to be shown online, when the auction begins and ends is set.

Before the auction begins, e-mails to everyone who has registered on the homepage are sent out automatically and when the auction starts it is run by itself. After the auction is over, messages to those who won articles is sent out.

The customer comes to the store to pick up their items or, if agreed, the items are transported by bus, Bussgods to the customer. When all articles from the auction is picked up, the action is accounted, and customers has a week to pick up what they have bought. The accounting is done in the pawn system, everything is manually put in there and saved. The filing is done automatically, and one file contains one auction. Everything is filed in the pawn system.

Managing unsold auction items

All articles that remain unsold are marked on the homepage and are put up to be sold as in an ordinary store. This is usually done the day after the auction so that customers are able to see the auction articles and notice that the auction is over.

Business activity constellation and profitability

The business mostly contains of two main activities: administrative work and valuation. Administration work is estimated to up to 60% of the time, contains all things that do not include any contact with customers. The accounting and pawn system counts everything automatically annually. Contact with customers, is estimated to 40% of the time, means to explain to customers how the pawn shop works and that some articles lack of value.

The most profitable thing is when customers extend their loans and it only takes half a minute to be done, it is a permanent income. The second easiest is when both the customer and the article are known. What takes the longest time and is the hardest thing to perform is when the customer is unknown and the article is difficult to value. An auction the gives the same money but the work effort is heavier. Regular selling is more about getting the money back and not to make any profit.

Usage of electronic systems

The electronic system is used since it is flexible and saves time. The system has been used since 1992 and simplifies when preparing for online auctions and makes it easier to part loans which contain several items that would be better to sell separately. The wish is that all administrative work should be atomized; sending e-invoices (only turnovers), the communications with customers should be by e-mail which means never have to write any letters. All manual things should be done automatically. The pawn book is also kept by the electronic system and the filing of the pawn book is done only on the computer.

4.3 Comments on collected empirical data

The anonymous pawnshop was not willing to answer all the questions we had, resulting in a less detailed description of their activities. The data tend to portray the pawnshop as have less work load than Jemtlands Pantbank AB. However, this is probably not the case because both of the pawnshop work and act according to the Swedish Pawnshop Law.

5 Analysis

The analysis chapter begins with flowchart analysis of processes found in each pawnshop. Afterwards the processes and their flowcharts of each pawnshop are compared. Finally, processes specific for pawnshop are chosen. These are then given suggestions for improvement and evaluated with a SWOT-analysis.

5.1 Flowchart analysis

The processes are analyzed by structure them into flowcharts. This is done in order to get a better overview and understanding of what is actually happening in a pawnshop.

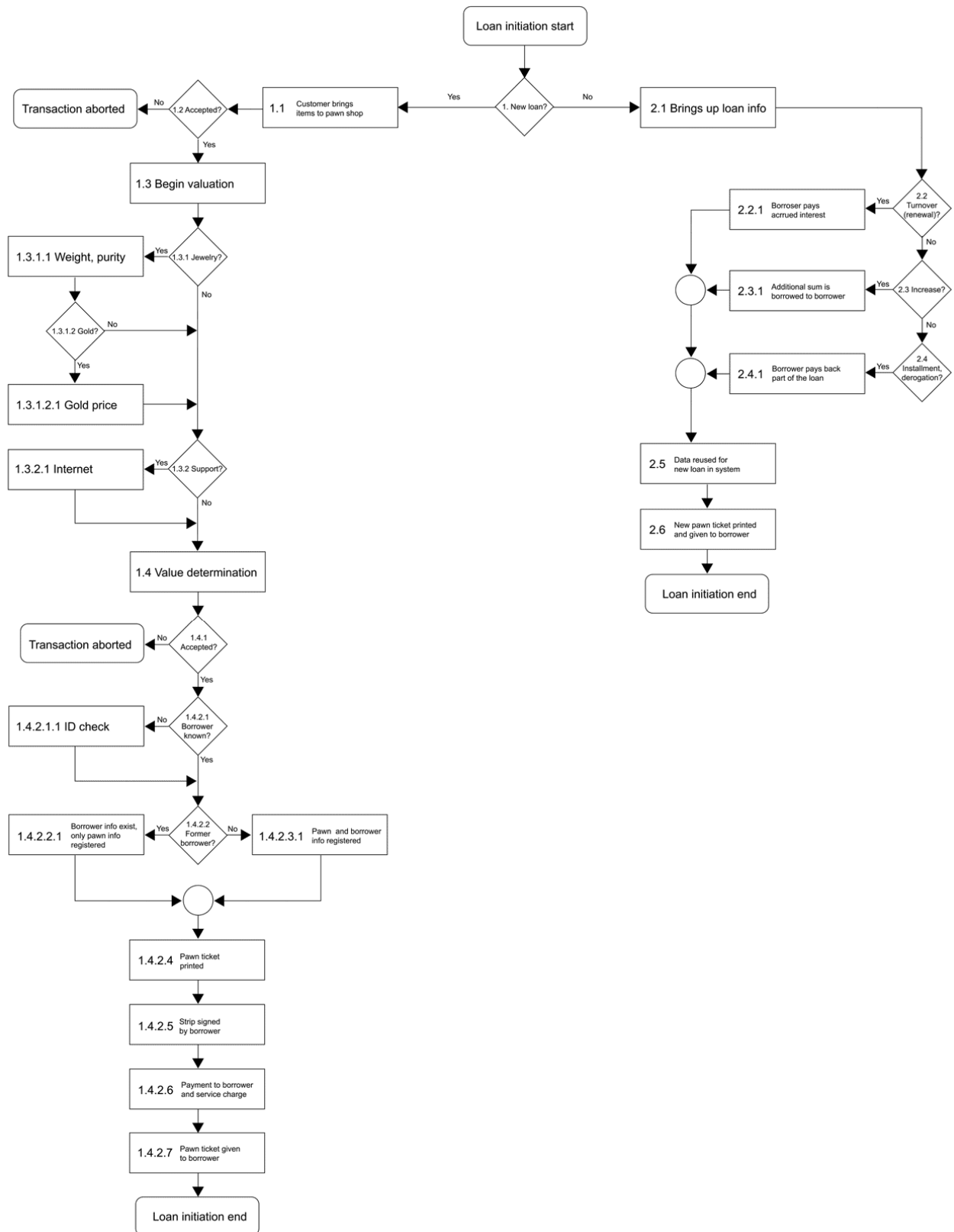
5.1.1 Analysis of Jemtlands Pantbank AB

Jemtlands Pantbank AB has been run since 1986, therefore it is considered to be a valid source of information.

Loan initiation processes

Based on empirical data collected from Jemtlands Pantbank AB the following is an analysis of the loan initiation processes.

Flowchart 5.1, Loan initiation processes at Jemtlands Pantbank AB



Referring to Flowchart 5.1, the loan initiation processes at Jemtlands Pantbank AB are:

1. If new loan

1.1. Customer brings an item (pawn) to pawnshop

1.2. If the item is not accepted by pawn broker the transaction is aborted.

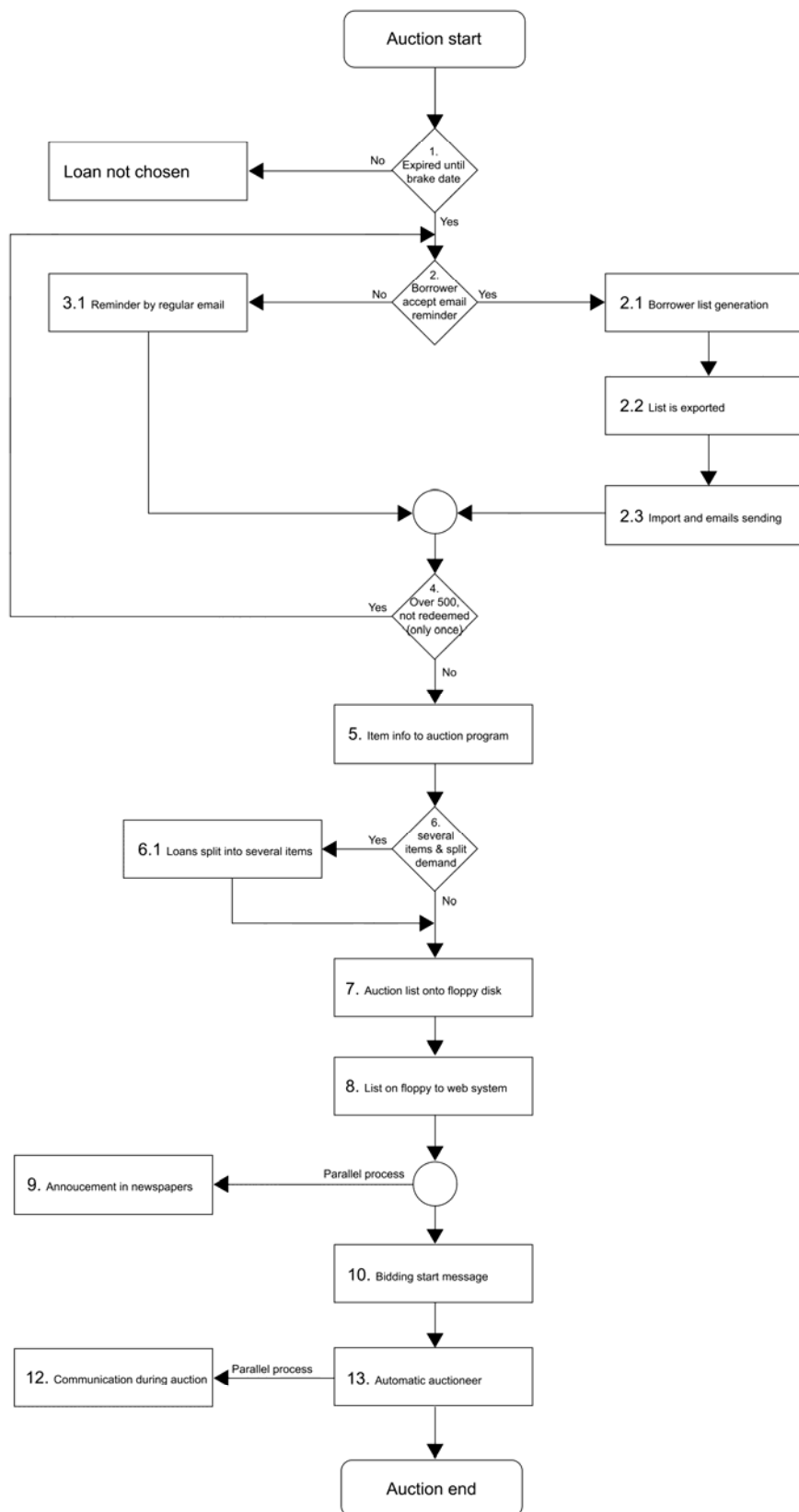
- 1.3. Else: Pawnbroker checks condition of the pawn to determines its value
 - 1.3.1. If jewelry
 - 1.3.1.1. The item is weighted, purity is measured and checked for genuiness stamps.
 - 1.3.1.2. If gold
 - 1.3.1.2.1. The daily gold price is checked
 - 1.3.2. If support needed
 - 1.3.2.1. The Internet is used to look for similar pawn and their valuation
- 1.4. When valued
 - 1.4.1. If the offered loan is not accepted by borrower the transaction is aborted.
 - 1.4.2. Else:
 - 1.4.2.1. If borrower not known
 - 1.4.2.1.1. ID, drivers licence or passport is requested
 - 1.4.2.2. If former borrower
 - 1.4.2.2.1. Borrower information exists in pawn managing system.
Only pawn information in entered.
 - 1.4.2.3. Else if new borrower
 - 1.4.2.3.1. Borrower information and pawn information is entered into a pawn managing program.
 - 1.4.2.4. Pawn ticket with all information is printed
 - 1.4.2.5. Small strip is signed by borrower
 - 1.4.2.6. Money is given to borrower and service charge is paid.
 - 1.4.2.7. Remaining part of the pawn ticket is given to the borrower
- 2. Else
 - 2.1. The pawnshop owner brings up the loan in the computer program
 - 2.2. If turnover (loan renewal)
 - 2.2.1. Borrower pays the accrued interest
 - 2.3. Else if loan increase demand
 - 2.3.1. If pawn shop accept increase demand
 - 2.3.1.1. Additional sum is paid to borrower
 - 2.4. Else if loan instalment / derogation
 - 2.4.1. Borrower repays a part of the loan
 - 2.5. The old loan is filed, the data is automatically reused for the new loan with a new loan number.
 - 2.6. Pawn ticket is created and given to borrower

Auction processes

Based on empirical data collected from Jemtlands Pantbank AB the following is an analysis of the auction processes.

Auction process is initiated when the amount of expired and unredeemed loans are enough according to pawn broker.

Flowchart 5.2, Auction processes at Jemtlands Pantbank AB



Referring to Flowchart 5.2, the auction processes at Jemtlands Pantbank AB are:

1. Loans that expired until a “brake date” are chosen

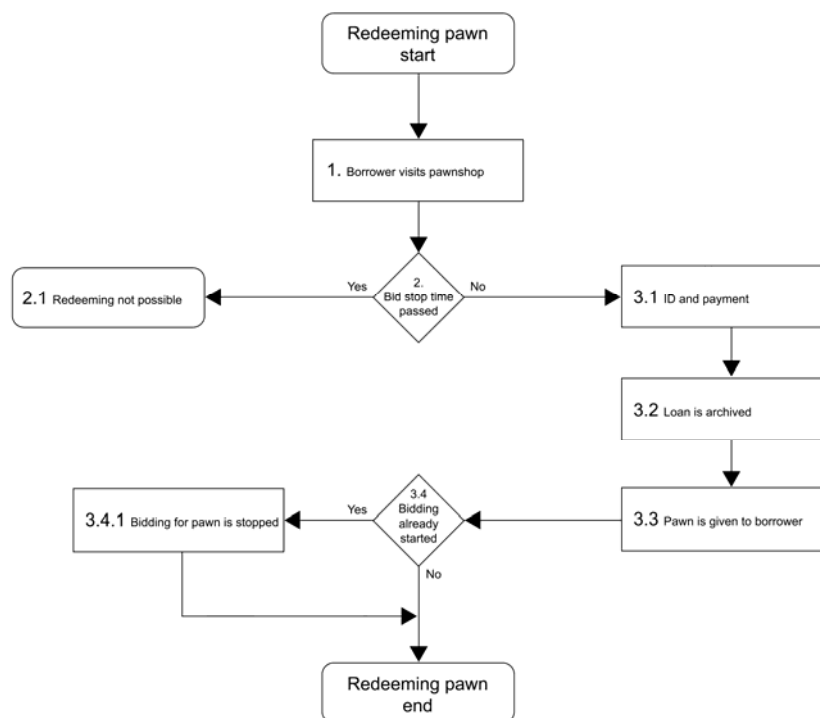
2. If borrower email address exists and borrower accepts email reminder
 - 2.1. The pawn program generates a list with those borrowers together with a summarization of their loan.
 - 2.2. The list is exported from pawn program
 - 2.3. The list is imported to web based system and personalized emails are sent.
3. Else
 - 3.1. Reminder is sent with regular mail.
4. If a loan exceeds 500 SEK and if item not redeemed after first reminder a second reminder it sent.
5. Item information (starting bid, description of the item and loan number) for selected loans are transferred to auction program.
6. If loan consists of several items
 - 6.1. Loan can be split up into several auction items.
7. Auction catalogue is exported from auction program onto a floppy disk.
8. (Using a different computer with Internet access) Auction catalogue is imported into website. Dates and time for the automatic bidding start and stop are added.
9. Announcements are made in at least one newspaper.
10. Bidding start message is sent to registered users when bidding starts.
11. Website acts as an automatically auctioneer based on bids as input.
12. Questions are answered regarding auction items by phone, e-mail or visit to the store.

Redeeming pawn processes

Based on empirical data collected from Jemtlands Pantbank AB the following is an analysis of the redeeming pawn processes.

Redeeming pawn processes can be initiated from time of loan initiation with a limit at the end of the auction processes.

Flowchart 5.3, Redeeming pawn processes at Jemtlands Pantbank AB



Referring to Flowchart 5.3, the redeeming pawn processes at Jemtlands Pantbank AB are:

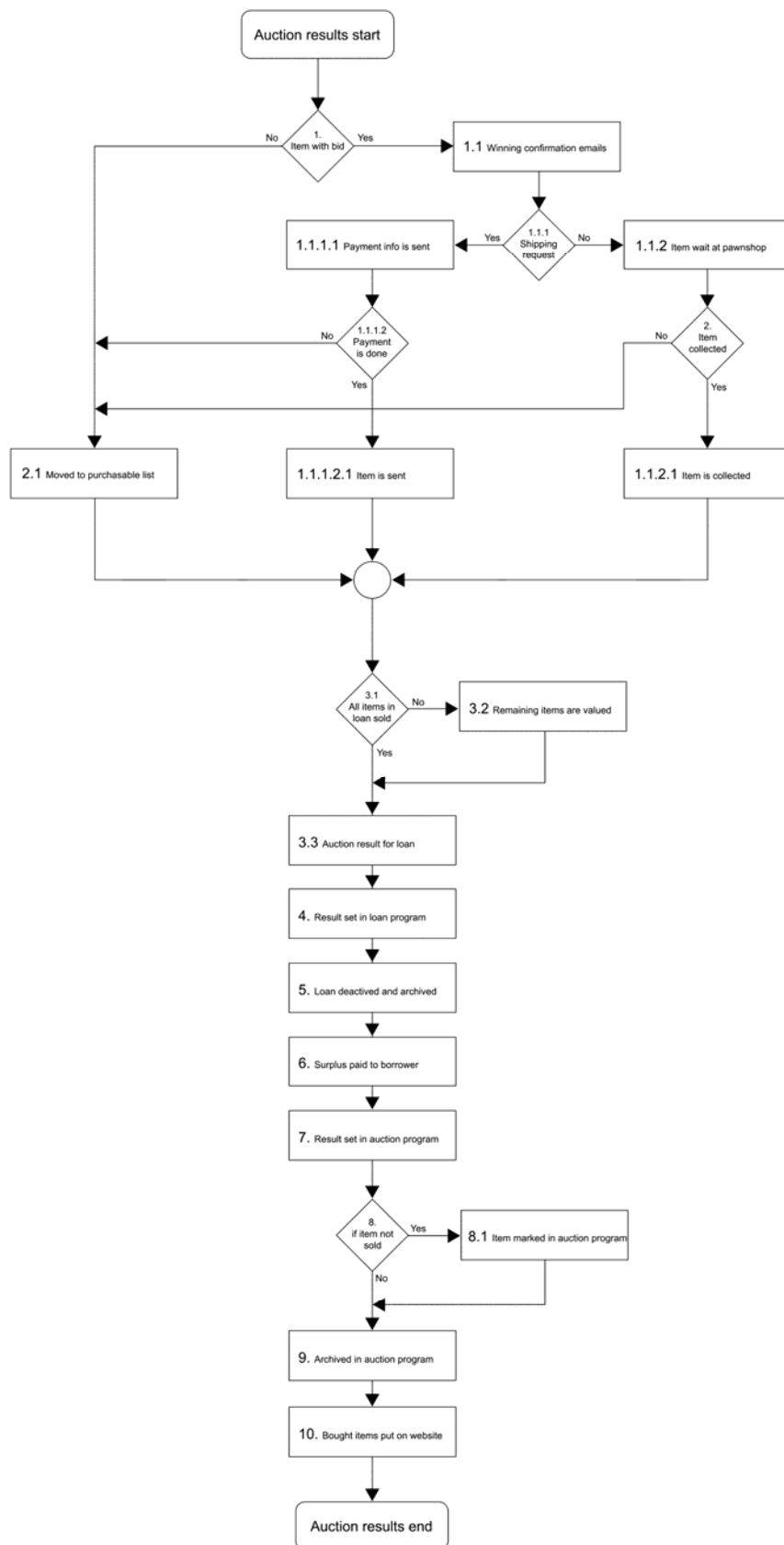
1. Borrower comes to pawn shop
2. If bidding stop date / time has occurred
 - 2.1. Redeeming not possible
3. Else
 - 3.1. Borrower shown pawn ticket, indentify him or herself, pays loan, interest and other fees.
 - 3.2. The loan is archived in the loan program.
 - 3.3. Borrower receives the pawn and, if requested, a receipt.
 - 3.4. If bidding has started.
 - 3.4.1. Bidding for that pawn (on the web site) is stopped.

Auction result processes

Based on empirical data collected from Jemtlands Pantbank AB the following is an analysis of the auction result processes.

Auction result start after bidding stop has occurred.

Flowchart 5.4, Auction result processes at Jemtlands Pantbank AB



Referring to Flowchart 5.4, the auction result processes at Jemtlands Pantbank AB are:

1. For items with bids
 - 1.1. Emails to bid winners are sent with an automatic function that which is manually initiated.
 - 1.1.1. If bidder requests items being sent
 - 1.1.1.1. The bidder receives payment information to pay in advance
 - 1.1.1.2. If bidder pays within a couple of days
 - 1.1.1.2.1. Item is sent
 - 1.1.2. Else, items wait to be collected
 - 1.1.2.1. Bid winner collects and pays for the item at the pawn shop
2. If not items with bids or not collected or paid for, items are considered as bought by pawn shop.
 - 2.1. Items are moved to purchasable list with items, within the website.
3. For items in each loan
 - 3.1. If all items of a loan are sold then the total of all final bids is the result
 - 3.2. Else, value for items without bids are estimated.
 - 3.3. Auction result is calculated based on the sum of final bids and possible estimations.
4. The auction result is set in the loan program
5. The loan is deactivated in loan program and archived. (regardless if it is sold or not)
6. The surplus is paid to customer according to law
7. Auction results on the website are typed into the auction program manually. Bought or sold and final cost (loan, interest and auction commission) is included.
8. If item not sold, in auction program
 - 8.1. The auction item is marked as “bought”
9. All auction items are archived.
10. Bought items are put up for sale on the website by manually changing

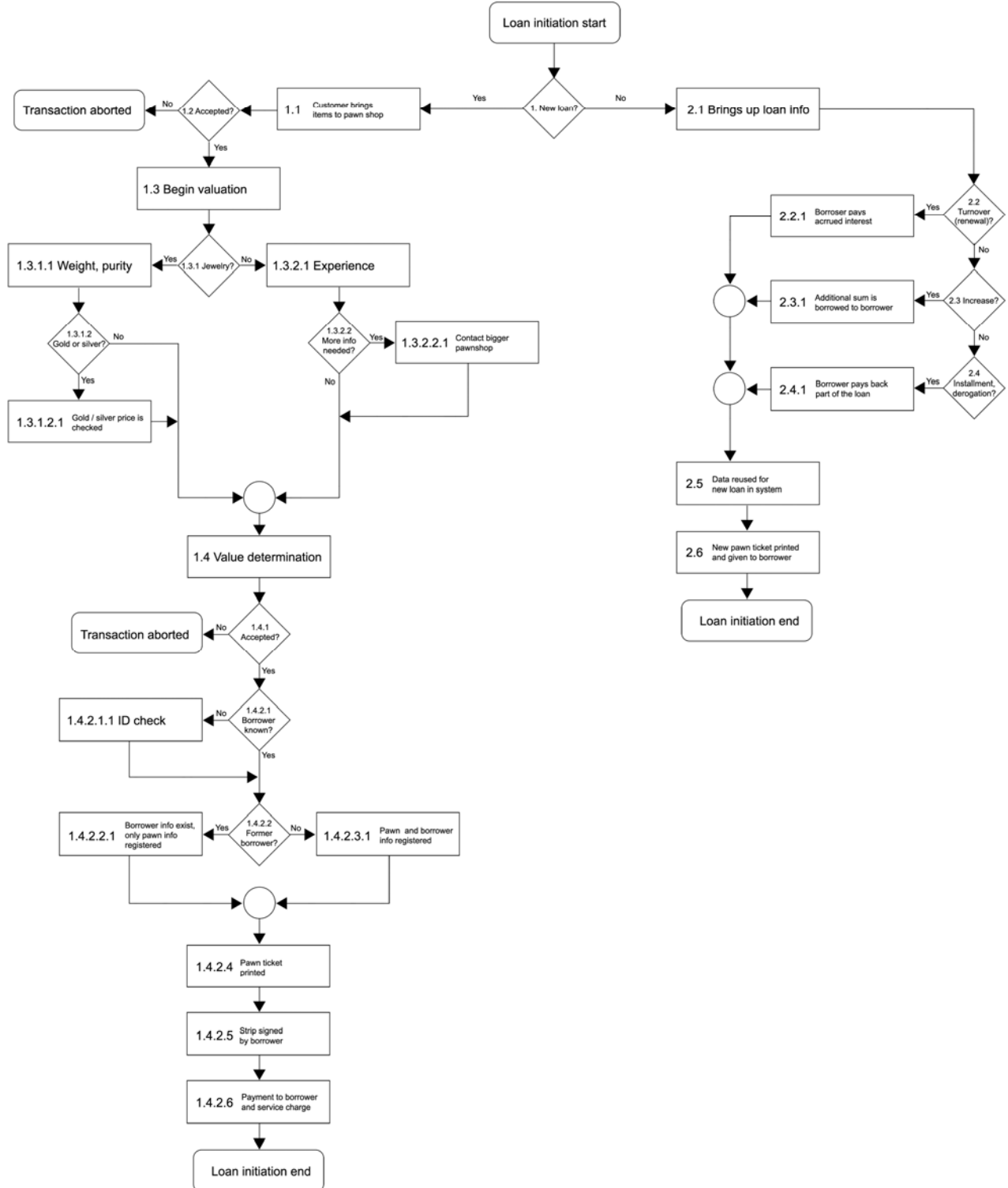
5.1.2 Analysis of anonymous pawnshop

This pawnshop has chosen to be anonymous in this study. The business has been run since the mid of 1980, therefore it is considered that it is a valid source of information. The pawnshop has chosen to not answer all questions asked, making the empirical data and, hence, the analysis of their pawnshop limited.

Loan initiation processes

Based on empirical data collected from anonymous pawnshop the following is an analysis of the loan initiation processes.

Flowchart 5.5, Loan initiation processes at anonymous pawnshop



Referring to Flowchart 5.5, the loan initiation processes at anonymous pawnshop are:

1. If new loan

- 1.1. Customer shows item (pawn) to pawnshop
- 1.2. If the item is not accepted by pawnbroker the transaction is aborted.
- 1.3. Else: Pawnbroker checks condition of the item to determine its value

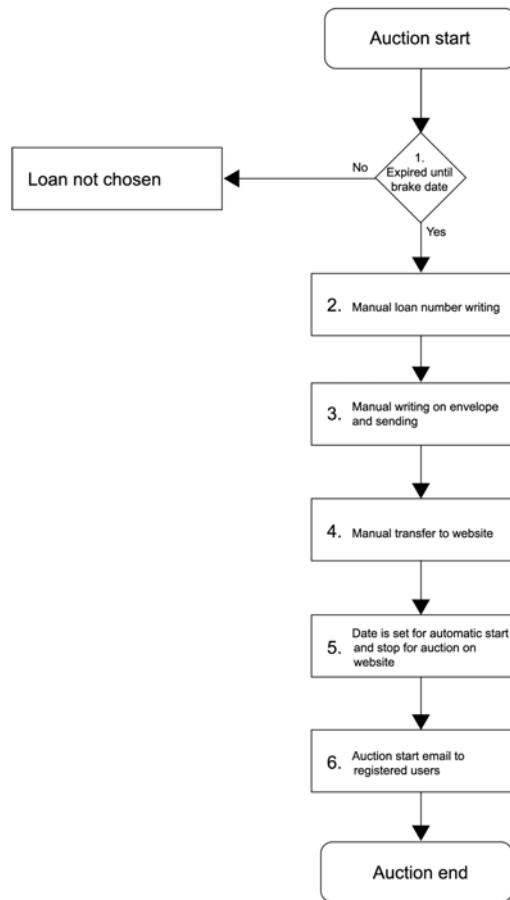
- 1.3.1. If jewellery
 - 1.3.1.1. The item is weighted, purity is measured and checked for genuinity stamps.
 - 1.3.1.2. If gold or silver
 - 1.3.1.2.1. The daily gold or silver price is checked
- 1.3.2. Else
 - 1.3.2.1. Valuation based on former selling and experience or:
 - 1.3.2.2. If more information needed
 - 1.3.2.2.1. Contacts bigger pawnshops to estimate item value
- 1.4. When valued
 - 1.4.1. If the offered loan is not accepted by borrower the transaction is aborted.
 - 1.4.2. Else
 - 1.4.2.1. If borrower not known
 - 1.4.2.1.1. ID, drivers licence or passport is requested
 - 1.4.2.2. If former borrower
 - 1.4.2.2.1. Borrower information exists in pawn managing system.
Only pawn information in entered.
 - 1.4.2.3. Else if new borrower
 - 1.4.2.3.1. Borrower information and pawn information is entered into a pawn managing program.
 - 1.4.2.4. Pawn ticket with all information is printed
 - 1.4.2.5. Small strip is signed by borrower
 - 1.4.2.6. Money is given to borrower and service charge is paid.
- 2. Else
 - 2.1. The pawnshop owner brings up the loan in the computer program
 - 2.2. If turnover (loan renewal)
 - 2.2.1. Borrower pays the accrued interest
 - 2.3. Else if loan increase demand
 - 2.3.1. If pawn shop accept increase demand
 - 2.3.1.1. Additional sum is paid to borrower
 - 2.4. Else if loan instalment / derogation
 - 2.4.1. Borrower repays a part of the loan
 - 2.5. The old loan is filed, the data is automatically reused for the new loan with a new loan number.
 - 2.6. Pawn ticket is created and given to borrower

Auction processes

Based on empirical data collected from anonymous pawnshop the following is an analysis of the auction processes.

Auction process is initiated when the amount of expired and unredeemed loans are enough according to pawnbroker.

Flowchart 5.6, Auction processes at anonymous pawnshop



Referring to Flowchart 5.6, the auction processes at anonymous pawnshop are:

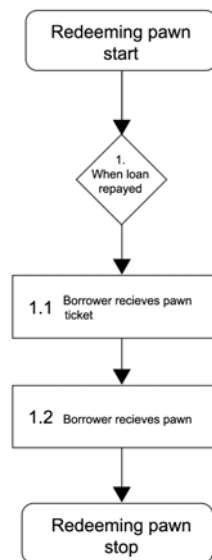
1. Loans that have expired until a “brake date” are chosen.
2. The pawnbroker writes the loan number on a standard form by hand.
3. Address to customer is written on the envelopes by hand and sent.
4. All items that are going to be in the auction are transferred to the website manually (typed in one by one).
5. A date is set when the auction is to automatically start and end.
6. E-mail to registered online users is sent out by using email function on website.

Redeeming pawn processes

Based on empirical data collected from anonymous pawnshop the following is an analysis of the redeeming pawn processes.

Redeeming pawn processes can be initiated from time of loan initiation with a limit at the end of the auction processes.

Flowchart 5.7, Redeeming pawn processes at anonymous pawnshop



Referring to Flowchart 5.7, the redeeming pawn processes at anonymous pawnshop are:

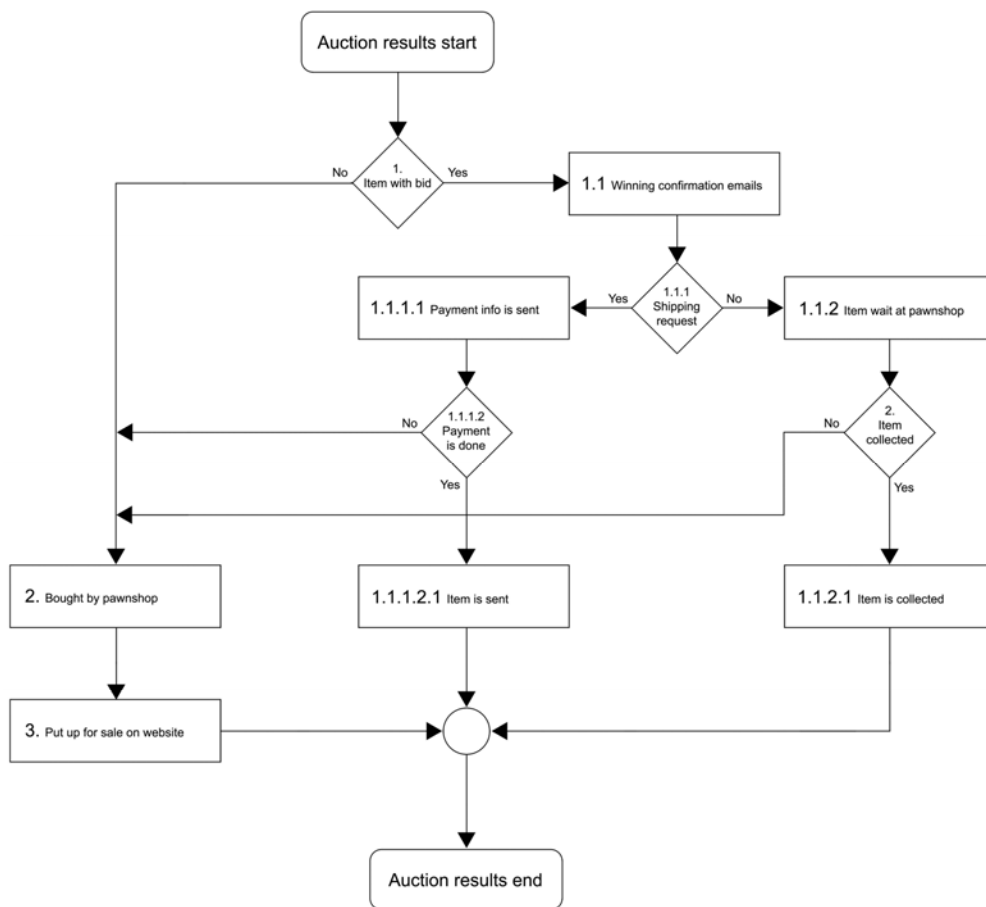
- 1.** When loan is fully paid back
 - 1.1.* The customer returns the pawn ticket
 - 1.2.* The customer gets the item back

Auction result processes

Based on empirical data collected from anonymous pawnshop the following is an analysis of the auction result processes.

Auction result start after bidding stop has occurred.

Flowchart 5.8, Auction result processes at anonymous pawnshop



Referring to Flowchart 5.8, the auction result processes at anonymous pawnshop are:

1. For items with bids
 - 1.1. Emails to bid winners are sent with an automatic function.
 - 1.1.1. If bidder requests items being sent
 - 1.1.1.1. The bidder receives payment information to pay in advance
 - 1.1.1.2. If bidder pays within a couple of days
 - 1.1.1.2.1. Item is sent
 - 1.1.2. Else, items wait to be collected
 - 1.1.2.1. Bid winner collects and pays for the item at the pawn shop
2. If not items with bids or not collected or paid for, items are considered as bought by pawnshop.
3. Items with no bid have their property changed on the website and put up for regular selling.

5.1.3 Flowchart comparison

A comparison of flowcharts describing processes for both pawnshops reveals that there are no significant differences in their way of conducting pawnshop business. The differences that do exist are more a matter of personal preferences than anything else. Therefore, for this thesis, an assumption is made that the details not mentioned by the anonymous pawnshop are the same as for Jemtlands Pantbank AB. This assumption is considered plausible since the information available from Swedish pawnshop is very limited. Consequently, flowcharts for Jemtlands Pantbank AB are chosen to pinpoint pawnshop specific processes.

5.1.4 Process elements

By studying the flowcharts in 5.1, six basic, reoccurring types of process elements (picture objects in flowchart) can be identified. These are:

1. **Meeting borrowers / customers**
Labour that require and is based on personal contact with borrowers / customers.
Ex: A potential borrower brings an item to pawnshop.
2. **Statement evaluation**
Make a decision by valuating standards and options, resulting in true or false.
Ex: Is the pawn redeemed?
3. **Manual labour not supported by IT**
Labour that is done without using IT (information technology) as supporting tool and requires physical presence.
Ex: Pack item for sending to bid winner.
4. **Manual labour supported by IT**
Labour that is based in on using IT as supporting tool.
Ex: Managing information with software.
5. **Data storage or transfer**
Labour consisting of manually storage or moving data from one place to another, with or without using IT as supporting tool.
Ex: Exporting from one software, then, importing to another.
6. **Activities run by fully automatic software**
Any activity that do not require any manual labour, i.e. self-acting.
Ex: Self-acting auctioneer software.

The activities described by process flowcharts in 5.1 are constructed of the process elements above. This simplification creates the possibility to address the thesis problem on a more basic level than addressing an entire process as one undividable body. Also, it shows that pawnshop specific processes are not as unique as they seem.

Looking at the process elements above, two of them have non-electronic characteristics solely depending on physical manual labour. They are *Meeting borrowers / customers* and *Manual labour not supported by IT*. Due to the potential size of the challenge and because Swedish pawnshop are small companies with limited resources, a suggestion for an electronic solution will not be further investigated. *Activities run by fully automatic software* will not be further analyzed either, due to the fact that those elements, at this point already, do not require any manual labour.

The remaining three processes will be further examined and, if possible, improved with the purpose to find a more streamlined alternative.

5.2 Suggestions for improvement

Since the Internet exists in digital form only, the streamlining demanded in this thesis should also be of a digital nature preventing jumping between different formats of data.

The three process elements chosen for improvement; *Statement evaluation*, *Manual labour supported by IT* and *Data transfer*, are basic process elements found in software. This means that the already are solutions to streamline and automate the manual labour in the chosen process elements, although, they might need adjustments to fit the requirements of a pawnshop.

Table 5.1: Suggestion for improving process elements

Process element	Suggested solution
Data storage or transfer Storing data or moving it from one place to another manually is a laborious activity, requiring human attendance at every transaction. The extent of database and Internet usage is a perfect example of the fact that data storage and transfer is possible and even advantageous. In other words, something to strive for. Currently, the pawnshops in this thesis are using both electronic and manual storage and transfer, creating transfer latency, data redundancy (several sources) and risk of faulty data presentation.	Electronic data storage and automated information flow The various software used by the pawnshop should be integrated in the sense that the data transfer is streamlined, meaning that the data transfer is instantaneous, without need for manual attendance. This makes it possible all software and / or other activities to have one and the same source of data.
Statement evaluation The manual labour consists of making decisions that are pawnshop specific and constantly reoccurring. Statements resulting in true or false are the foundation for all software. Therefore, streamlining and optimizing manual statement evaluation by using software is a very suitable action.	Using standards and options By pre-programming software with standards and options that reflect the pawnshop and their way of conducting pawnbroking, statement evaluation can occur instantaneously, without requiring manual labour.
Manual labour supported by IT The reason for manual labour required by software, in the case of pawnshops, is need for input or manual processing of existing data. Furthermore, manual labour supported by IT is reoccurring activities.	Automatic activity By providing software with adequate data and an action start mechanism activities can be more self-acting. These requirements can be provided by the suggested solutions above.

5.3 SWOT-analysis of suggested improvements

Suggested solutions Table 5.1 are evaluated using a SWOT-analysis.

5.3.1 Electronic data storage and automated information flow

The following SWOT-analysis evaluates electronic data storage and automated information flow, the suggested solution for data storage and transfer.

Strength	Weaknesses
<ul style="list-style-type: none"> • One source of information • Information flows less dependant of attendance • Higher information validity • No information lead time • Less “damage control” needed in case of outdated information presentation • More information to customers and/or borrowers 	<ul style="list-style-type: none"> • Higher need for backup (due to one source of information)

<ul style="list-style-type: none"> • Overall more cost and time efficient • ...and therefore higher capacity 	
Opportunities	Threats
<ul style="list-style-type: none"> • Real time inter-organizational integration • Less work load if new information flow are demanded • Bigger possibility to lower interest rates due to higher cost efficiency 	<ul style="list-style-type: none"> • Legislation banning systems to be connected to the Internet • Hackers

Strengths

By integrating current systems it is possible to store every instance of information in one single place making duplicates redundant. If information has one single origin, the risk of working with outdated information is less probable, under the assumption that the software and hardware is working as intended. The information flow becomes less dependant on manual handling, giving the information higher validity than when manual import / export is necessary. This is possible because the previous information lead time (getting information from one system to another) involving humans is not existing anymore.

Due to the above, the risk of presenting customers / borrowers with outdated information is minimized and also the possible errors or damage that outdated, imbricate information could cause. Consequently, the additional work load for solving such issues is minimized.

If transporting information, in this case information flows, has less or no potential to create additional work or cause errors the pawn shop is more likely to offer more information to its consumers. An example of this could be letting borrowers have constant access to information about their loan making them feel more in control of the situation, hopefully redeeming their items in time or renewing the loan. In this example there would be no additional work load for the pawn shop since the information already exists. It's just a matter of seamlessly reaching the receiver.

By excluding the need of manual work the information flow between current systems becomes more cost and time efficient. This in turn means that the pawn shop acquires higher potential capacity.

Weaknesses

If information is stored as one instance only, the need to protect that instance is a bigger issue than when information spread throughout different systems. A failure in software or hardware could affect all information instead of parts of it. Therefore, an elaborate backup system might be needed.

Opportunities

If the pawnshop decides to cooperate with other organizations or companies that depend on valid real time information, the source of that information, the pawnshop, and its information flows must be in real time as well. By having its own information flows integrated with little or no information lead time the pawnshop is better prepared and streamlined for such real time inter-organizational integration. An example of this is integration with a marketplace online where presenting outdated information (e.g. product already sold but presented as available) could cause problems.

Similar to inter-organizational integration discussed above, indisputable demand for new information flows might arise, e.g. due to legislation. Such a situation puts a pawnshop with already integrated information flows in a better position than its competitors.

By integrating information flows, lowering needed manual work, the pawnshop becomes more cost-efficient giving it better possibilities to be lower their interest rates and fees to attract customers.

Threats

The Swedish Pawnshop Law demands that borrower information is kept confidential. Since that law has not been updated since 1995 the combination of pawnbroking and Internet is still not addressed in the law. Integration that includes Internet-based system could create a connection between confidential borrower information with the Internet, a connection that has not existed before, at least in the case of our respondents. This new situation enables the risk of hacker attacks. If authorities responsible for the supervision of the pawnbroking business in Sweden (county administrative boards through out Sweden) or other authorities find this integrated management of information at a pawnshop as unsuitable, e.g. due to potential security risk, complications might arise. In the worst case scenario, even banning the usage of systems spanning over the Internet. If this would happen, a substantial part of the pawnshops efficiency and competitive advantage would be lost.

5.3.2 Using standards and options

The following SWOT-analysis evaluates using standards and option, the suggested solution for statement evaluation.

Strength	Weaknesses
<ul style="list-style-type: none"> • Structured treatment of data • Result is staff independent • Less work load • Less dependent on experienced staff • Parts of decisions making is made by system • Need less manual management • Shorter lead time • Adaptation of data treatment according to the individual preferences of the pawnshop • Fewer errors due to human factor • Higher customer trust due to equivalent decision making every time 	<ul style="list-style-type: none"> • Hard to predict all exceptions • Problems with defining standards and exceptions • Less value creating special treatment of customers • System limitation for exception managing • System might output less than perfect results
Opportunities	Threats
<ul style="list-style-type: none"> • Using standards might reveal business flaws • Easier and faster adaptation to new business or market conditions • More probable to adapt to small changes 	<ul style="list-style-type: none"> • Other pawnbrokers might attract customers due to more personal treatment

Strengths

By using standards and options all data will be treated in a structured way which makes it easier to know how to handle different types of data. When the data treated structured the result will be the same irrespective of who is working, e.g. a gold jewelry will be valued the same no matter who is doing the valuation. The work load will be less since the system will be able to handle manual task automatically and the work will therefore be less dependent on experienced staff, the system is programmed to handle certain data, e.g. if someone wants to make a loan the staff does not need to know all interests by heart.

When using standards the system will manage parts of the decision making and therefore less time needs to be spent on manual management. The system determine which information is needed to make decisions comes up with a suggestion. Using standards make lead times shorter since the system can process requested information automatically, that is done manually by the pawnbrokers today. By adapting the system, the pawnbroker might also decide how he/she want the data to be treated and shown dependent on their preferences. Automatic creation of reports and management decisions reduces the risk of human errors which easily can be done when large amount of data is handled. Since the system handles some decision making the customer can feel more secure that the valuation is correct.

Weaknesses

By giving the system a limited number of standards and options it might cause some problems because unpredictable exceptions almost always appear. It is hard to decide which standards needed, what options which options to choose between and how the standards and options should be used together.

Today the pawnbrokers do most of their job manually and therefore have the opportunity to pay extra care to regular customers and in that way create value for those specific customers. If using standards they might loose that opportunity. Another weakness is that standards reduce the opportunity to manage exceptions which is actually done for some regular customers today.

The opportunity to fine-tune loans will be less used if reports are created automatically which, according to the pawnbroker, makes the results less perfect.

Opportunities

When using standards the pawnbroker might discover flaws in the business, e.g. that there are activities done that is occupying resources, entirely unnecessary. If the market- or business conditions are changing the pawnbroker will be more prepared to make those changes. For example, if different reports or routines are demanded, the changes can be done by making some adjustments in the system. If smaller changes, like the gold price, appears it is more likely that the pawnbroker will adjust to those changes with easily changed options then if he/she would have to do it manually on several hundreds of items.

Threats

With standards some of the personalization will disappear. A threat to the pawnbroker will therefore be other pawnbrokers that can offer the customer more personalized treatment.

5.3.3 Automatic activities

The following SWOT-analysis evaluates automatic activity, the suggested manual labor supported by IT.

Strength	Weaknesses
<ul style="list-style-type: none"> • Self-acting • Time and cost efficient • Less work load • Less dependent of staff attendance • Less dependent on experienced staff • Decision making is made by system • Little or no manual management • Less sensitive to high volumes of data • Time resources for other activities • More time can be spent with customer service • Higher capacity 	<ul style="list-style-type: none"> • Less overview of situation before initiating a process • Less control of <u>creating</u> exception • Risk of faulty management in case of exception • Needs an active action to stop unwanted process initiations • Very dependent on fully working system. • Errors can exist longer time before noticing them
Opportunities	Threats
<ul style="list-style-type: none"> • Afford to be more price competitive • Additional information flows with little or no additional work load • Self-acting CRM 	<ul style="list-style-type: none"> • System trust issues

Strength

By using automatic initiation the system will be more self-acting. As an example, the system will alert the pawnbroker when it is time to start an auction and automatically send out reminders to customers when their loan is about to expire. The system will reduce the pawnbrokers daily work load and save both time and money since many of the manually done routines can be done automatically by the system. Since the initiations and some of the decision making will be done automatically it demands less attendance and experience from the staff, e.g. the system is set up to decide when and to whom information will be sent out to. With the system as a help the manual management, like knowing when customers loans is about to expire etc., will be reduced or entirely disappear.

With automatic initiation the pawnbroker will be less sensitive when having to handle high volumes of data. Many loans brings high volumes of data and demands a big work load, if the system can handle this automatically the work load will be reduced. When the manual work load is reduced the pawnbroker gets more time to spend on activities that has not been prioritized due to lack of time. The pawnbroker gets more time to spend on improving customer service and create better customer relations.

By letting software manage parts of the activities required to run a pawnbroking business, the capacity of that pawnshop rises.

Weaknesses

With automatic initiation of processes the pawnbroker has less overview before the process starts. As they work today the pawnbroker has manually control when customers loans is about to expire and when it is time to run an auction. Automatic initiation gives the pawnbroker less opportunity to predict exceptions. If the activities are run by themselves they will be harder to watch over and discover exceptions that should have been done. It is also a risk that faults will appear in management since it has less control. When done manually all data is carefully looked through and small adjustments are done when necessary.

If an activity that is run automatically need to be stopped, this has to be done as an active action from the pawnbroker. Due to the human factor such a thing can be easy to forget and overlook and might lead to consequences for the pawnbroker. Active initiation is also very dependent on a fully working system, if it is failing somewhere in the chain all out coming data might be partly or totally wrong. If the system fails in reminding customers that their loans is about to expire and the customers trusts that the pawnbroker has this under control it can be devastating for the business. Errors in the system might be hard to discover and therefore stay in the system a long time.

Opportunities

An opportunity with automatic initiation is that the business can afford to be more price competitive. As an example, if they can reduce their costs by loosing time consuming manual work they might be able to lower their interest. Additional information flow can be produced with little or no additional work load, e.g. if the Swedish pawnbroking law should be updated, or a new type of data should be requested, and demand a different type of reports it will be easier and less work for the pawnbroker to create new reports.

Threats

When the system becomes more automatic the risk of intrudes arises. If the system is run by itself with no one keeping an eye on it is a risk that faults will appear and if the faults gets to big it might end up sending wrong information to the customers and the pawnbroker will loose their trust.

6 Conclusion

In this chapter the results are summarized and discussed. We reflect on the result and give our own opinions. Finally suggestions for future research are given.

6.1 Result

In order to streamline pawnshop specific processes to facilitate the usage of Internet the pawnshop should promote the usage of one single data source and let all software access it through seamless digital data flows. By clearly defining standards and options used by the pawnshop it is possible to let software process data that is currently processed manually. If both of these goals are achieved then it is possible to create fully automated processes not requiring manual labour. These changes in a pawnshop create a presence on the Internet that is more than just a website. Instead it becomes a real time e-business with the potential to evolve further.

6.2 Discussion

The theoretical basis for this thesis is very limited. There was no scientific data concerning pawnshops online, however, there were a lot of descriptions of activities in a pawnshop. These descriptions were mainly about pawnshops in the USA. Since this thesis is limited to Swedish pawnshop, run under Swedish pawnshop law, we considered them as an inappropriate source of information. In other words, no information about how Swedish pawnbrokers work. This left us with the Swedish pawnshop law

The empirical data collected for this thesis is also limited. The reason for this was that currently there are simple very few suitable respondents. There were three (Swedish) pawnshops found that fitted our requirements. Two of them agreed to an interview but only one of them answered a bigger part of our questions.

The fact that parts of the Swedish pawnshop law is treated more as suggestions than absolute rules, makes it possible for pawnshops to have slightly different way of working. Also, the pawnshop law has not been updated since 1995 and does not mention the usage of Internet or other IT. The respondents called it obsolete and in need of an update. Confusion seems to exist. For example, nobody seem to know whether online auction are legal, because the Swedish pawnshop law states that auction must be held at the same place that the item was pawned.

The limitations above make it hard to clearly define the conduct of pawnbroking. Because flowcharts for Jemtlands Pantbank AB were chosen to represent both pawnshops in this thesis and therefore Swedish pawnshops in general they may indeed contain errors. For time being they are the only representation available.

6.3 Future research

We believe that there is a big potential for future research. Probably the most interesting area for pawnbrokers would be to create new, optimized process flowcharts by using our, or others', suggestions for improving pawnshop specific processes. Other future research could concern specific activities in a pawnshop, for example whether the loan process really requires the borrower to bring the item to the pawnshop for valuation.

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Appendix 1 – Swedish pawnshop law

Please note that the following is a translation of the Swedish Pawnshop law ”Pantbankslagen (1995:1000)”

Opening regulations

1 § In this law the following terms concern

pawnshop: a company that practices pawnbroking,

pawnbroking: a business activity with the purpose of lending money to customers with the customers’ property (primarily tangible property) as pawn,

pawn ticket: a special proof of a specific transaction that the pawnshop provides to the customer.

pawn book: a continuous registry of all pawn transaction in a pawnshop.

2 § Terms of contract that in comparison with this law are to the disadvantage for the customer have no negative effect against the customer, if not stated other wise in the law.

Permit duty

3 § Pawnbroking may only be conducted after permission from county administrative board. Permits are given until further notice.

Permits can be given to Swedish limited companies and corresponding companies within the EEA (European Economic Area). For a foreign company, not active thru a Swedish limited company, the permit is to concern an activity thru an affiliate according to the law (1992:160) about foreign affiliates etc.

4 § Permit is to be given if the company, with consideration to organisation, management and owners with decision power, can be assumed to run a healthy pawnbroking business and meet the demands stated in this law.

Permit to a foreign company may only be given to a company that have a permit to run a pawnbroking business in the country of their registered office and that is monitored by an authorized body.

5 § A permit request is to be tried in the county administrative board in the county where the business will be run. If the business is to be run in several counties, the request is to be tried in the country where the companies swedish head office is situated.

Before a pawnshop opens a new office an application must be made to the county administrative board that have issued the permit. If the office is opened in a different county, an application must be made to the county administrative board in that county as well.

Demand for business health and prohibition of other activities

6 § Pawnbroking business must be run in a manner which will support a public trust for the business and that the business can be considered as healthy.

A pawnshop may not run any other business in addition to the pawnbroking business except those mentioned in 20 §.

Confidentiality

7 § Information about specific customers' personal and economical situation given to a pawnshop may not be spread without authorization.

In general activities the regulations in the Official Secrets Law (swe: Sekretesslagen) (1980:100) is to be used.

A person that break the prohibition in the first paragraph will not be held responsible according to chapter 20 in 3 § in the criminal code (swe: brottsbalken).

Lending basics

8 § The pawn must be the only collateral for the loan. The borrower (customer) will not be personally responsible for the payment of the loan.

9 § Interest charged for the loan must be stated as a interest rate corresponding to interest expense per year for, at any moment, the unpaid part of the loan.

The interest rate may not be changed to the disadvantage of the borrower while the loan is active.

10 § A pawnshop may, in addition to interest, charge for the loan as compensation for costs surrounding the loan.

Size of compensation may not be changed to the disadvantage of the borrower while the loan is active.

11 § The borrower has the right to buy out the pawn before the end of the lending period. Interest and other costs is then to be paid for the time loan has been active but not for the time afterwards. However, the pawnshop may demand that every started month is counted as an entire month, with start from the day of the loan start.

The pawnshop may not demand compensation if the loan is repayed before the loan period is over.

12 § The loan period may not exceed a time frame of one year.

If the loan is not repayed when it's due, the pawnshop may sell the pawn according to 16-20 §§.

The pawnshop is entitled to delay interest during at most four months from the expiration date.

Pawn ticket

13 § The pawnshop must provide the borrower with a pawn ticket as proof of the pawning. The pawn ticket must contain information about

1. the id number used for the loan in the pawn book,
2. the day of the pawning and the loan expiration date,
3. the loan amount and interest according to 9 §,
4. compensation according to 10 § and other conditions regarding the loan and
5. description of the pawn.

Interest according to 9 § and compensation according to 10 § is to be stated as amounts.

Age limit and ID etc.

14 § A pawnshop may only accept pawn from a person that is at least 18 years old. The borrower must be known by the pawnshop staff or in a reliable way confirm the identity of the borrower. The same requirements are made when pawn is redeemed.

The pawnshop must at the time of the pawning require information about the location where the borrower can be reached for notifications. Obligation according to 19 § to inform the borrower or other is considered as fulfilled, if the information has been sent with certified mail to the address provided by the borrower or other that is known by the pawnshop.

Insurance

15 § A pawnshop is required to, for received pawn, have property and responsibility insurance for a reassuring amount.

Pawn selling

16 § The pawn may not be sold until two months after the due date of the loan, unless the borrower or the person that have acquired the right to the pawn allows this to be done earlier.

17 § Selling is to be made during a public auction in the city / area where the pawning was made, unless the borrower or the person that have acquired the right to the pawn allows selling being made in another city / area.

If the pawn consists of security quoted on the Swedish or foreign stock exchange, an authorized marketplace or other regulated market, the selling is to be done through a securities firm and to a current price on the stock exchange or market.

18 § Selling on a public auction must be announced in a newspaper within the city / area no less than eight days in advance. The announcement must contain the due date of the loan.

The borrower or the person that have acquired the right to the pawn is to, well in advance before the auction and in a proper way, be specifically informed about time and place of the auction.

19 § Surplus linked to pawn selling goes to the borrower or the person that have acquired the right to the pawn.

If the surplus totalling at most 100 SEK, the borrower or the person that have acquired the right to the pawn have the right to payment of that surplus on demand at the pawnshop. If the surplus exceeds 100 SEK, the pawnshop is to inform him or her as soon as possible that this kind of surplus have arisen. The pawnshop can instead pay the surplus directly to him or her in a proper way.

Surplus that has not been able to be paid within one year from the selling date goes to the pawnshop.

20 § A pawnshop itself is allowed buy a pawn during selling at an auction. The pawnshop is then allowed to sell that pawn over the counter.

Pawn book

21 § A pawnshop must use a pawn book.

The government is allowed to prescribe which information that must be noted in the pawn book.

22 § Information in the pawn book must be preserved for five years counting from the calendar year when the information was brought in or the longer time that is stated for some information according to other constitution.

Ownership trial

23 § A direct or indirect acquisition of stocks in a pawnshop, that results in the acquirer has more than ten per cent of the capital or votes or in other way makes it possible for substantial influence of the company, is only allowed with after getting a permit from the county administrative board concerned in 5 § first paragraph.

A permit is to be given, unless it can be assumed that the acquisition will work counter to a healthy developpement of the company's activity.

Supervision

24 § A pawnshop is under the supervision of county administrative board.

If the pawnshop is active in several counties, the county administrative board in the county where the company has it's swedish head office is responsible for the supervision. The local supervision where the company is active is made with support from county administrative board in that county.

25 § The county administrative board is to, with its supervision of the pawnshops, make sure that a healthy development of the company is promoted.

26 § A pawnshop is to provide the county administrative board with information about its activities and the surrounding circumstances that the county administrative board requests.

The county administrative board may conduct an investigation of a pawnshop when the county administrative board concerns it necessary.

Police control

27 § A pawnshop is obliged to, on request, hand over information from the pawn book to the police authorities.

The pawnshop must allow the police authorities access to the pawnshop premises for examination of the pawn stock and inspection of the pawn book and documents that it is founded upon.

Intervention

28 § A permit to conduct pawnbroking business is to be revoked by the county administrative board if:

1. the company within one year after the receiving a permit has not begun its activities or before then declared itself to refrain from the permit,
2. the company has not been active for a continuous period of time of one year, or
3. the company, by breaking regulations in this law or any other constitution or in any other way has proven itself not to fulfil the demand for a healthy pawnbroking business.

29 § If sufficient, in the case of 28 § 3, the county administrative board may, instead of revoking the permit, issue a warning.

30 § If a person conduct a pawnbroking business without a permit, the county administrative board is to order him or her to stop the activities.

If it is uncertain whether a business constitutes a pawnbroking business, the county administrative board may order the conductee to present information needed to make a judgement.

31 § If the county administrative board revokes a permit based on 28 § 3, the county administrative board may decide on how the activities are to be disassembled.

The county administrative board may also decide on how an illegal pawnbroking business is to be disassembled.

Penalty

32 § If the county administrative board issues an injunction or prohibition according to this law, the county administrative board may issue a penalty.

Fees

33 § Pawnshops active in Sweden must pay fees to finance the county administrative board's activity regarding this law.

The government may create more specific regulations regarding these fees.

Appeals etc

34 § The police authorities' decisions according to this law may be appeal to county administrative board. The decision of the police authorities is in force immediately, unless decided otherwise.

35 § The county administrative board's decision according to 30 § second paragraph can not be appealed.

Other decisions that the county administrative board informs according to this law may be appealed at a public administrative court. Review permit is required in case of appeals to administrative court of appeal.

36 § The county administrative board may decide that a decision regarding prohibitions, injunctions or reworking is to be in force immediately.

Transitional rules

1995:100

1. This law comes into effect January 1st 1996, when the law (1949:722) about pawnbroking business will cease to be valid.

2. For a pawnbroking business that at the time of the enforcement of the new law is run with permit according to older regulations, the following applies.

a) For continuous business a permit is needed according to the new law. The business may however be run according to the old regulations until the end of the year of 1996 or, if permit application according to the new law has been given before that, until the application has been finally tried.

b) Activity run in other form than what is requested according to 3 § second paragraph may continue in this form until the end of year 1997.

3. In case of appeal of decisions made by the county administrative board or the police authorities before the enforcement of the older regulation are to be used.

Appendix 2 - Interview guide

Common questions

- How long has the pawnshop been running?
 - If owner:
 - Why did you choose to run a pawnshop?
- Why did you set up a pawnshop?
- What is your common opinion about the business? What is your common opinion about your pawnshop?
- Are there niches between different pawnshops?
 - If yes:
 - Which one is your niche?
 - Is this a deliberately chosen niche or is it a forced one, e.g. because of competition or the selection of goods that customers pawn?
- Do you see the business as stabile? (If not, the chance that they are willing to invest will be less)
- How are you looking at the law of pawnbroking?
- Describe how a borrowing is performed
- Describe how an auction is performed
- Describe how goods that not has been sold on an auction is handled (The goods can be bought by the pawnshop but this is no demand)
- Do you assume that your business contains of different activities?
 - If yes, what kind of activities?
 - How big workload is this activity?
 - How profitable is this activity? (if the profitability is small but the workload is big is that more important to put right)
 - Are there activities that you consider unnecessary?
- Nowadays is it allowed for pawnshops to run auctions on the Internet.
 - Have you make use of this?
 - If yes:
 - How?
 - How has this influenced your business?
 - If not:
 - Why?
 - Are there any plans on doing this?
 - If yes: Why?

Age and identification

- How is a borrower identified?
 - Are there any problems with this procedure?
- According is the identification not mandatory if the customer is known for the pawnshop staff.
- Do you approve of such a procedure in your business?
 - If yes, has this procedure caused any problem?
- Is the identification obligation making any problem?
- Are there any further handlings done by tradition which is not mandatory according to the law?

- Is this generally acknowledged by other pawnshops?
- How do you manage the contact with a borrower?

Lending

- How is an evaluation performed in your pawnshop?
 - On what bases?
 - Any resources of information?
 - Are you receiving any help from other pawnshops?
- Is the, by you, estimated value of the pawn completely decisive for how big the loan to the borrowers going to be?
 - If not, what other bases is there?
- Are you taking any other compensation for the loan except the interest?
 - If yes, how do you decide this compensation? Does it differ from time to time?

Pawn ticket

- How is a pawn ticket handled in your business?
 - Does it differ from what is stated in the law?
- How long does it take to manage a pawn ticket?
- When managing the pawn ticket, are there parts that are more hard-working than others?
 - How big part of a pawning is managing the pawn ticket, during the circumstance that the pawn is buy out by the borrower?
- Are there any other procedures done by tradition which is not mandatory according to law?
 - Is this generally acknowledged by other pawnshops?

Pawn book

- Describe a pawn limited to what happens in the pawn book
 - Are there any exceptions?
 - How are these exceptions handled?
 - Are there any limitations?
- How do you manage your pawn book?
 - For example, in what format is it kept?
 - How does it filed (in five years)?
- Are there parts that are more hard-worked than others?
 - Are there parts that are easier to handle than other?
 - Are there bottle necks?
 - Are there procedures that are done manually?
- Is there any supervision done by the county administration board or the police according to the law?
 - How often does this happen?
 - How does this work regarding the handling of the pawn book?
- The pawnshop has professional secrecy regarding borrower data, how is this secured?
- Are you using any electronic system?
 - Why are you using an electronic system?
 - Since when? (this question is asked to see if they have enough experience)

- In what processes is the system helping you and how?
 - What is the system's advantages and disadvantages?
 - Is the system solving any bottlenecks? Is it creating new ones? What kind of bottlenecks?
 - Are there any parts that you think could be improved?
 - Are you confident in your system? Why?
 - What precautions have been taking into the system regarding professional secrecy?
 - Looking back, can you see that using an electronic system was the right decision?
- Are there any other procedures done by tradition which is not mandatory according to law?
 - Is this generally acknowledged by other pawnshops?

Pawn selling

- How is the selling of a pawn performed?
- How do you inform potential bidders about an upcoming auction?
- How do you inform the borrower that an auction is going to be held and that their goods will be on sale?
- What preparations are done before an auction?
 - What are the elements?
 - How much work and time does every element require?
- How is the auction handled?
 - What are the elements?
 - How much work and time does every element require?
- How is the person with the highest bid receive the pawn?
 - How is the customer handled?
- How is the borrower informed about an possibly surplus from the auction?
- How is a non-sold pawn handled?
 - How big parts of the pawns are not being sold at auctions?
- Are you buying pawns that have not been sold at an auction?
 - What actions do you do to sell these?
 - How are you reaching potential customers?
 - What elements are included in selling?
 - How much time and work does every moment require?

Insurance

- According to the law is it mandatory for a pawnshop to have insurance.
 - Does this mean that you have to value your assets (e.g. inventory)?
 - How frequent?
 - How is this managed?

Closing questions

- What elements in your business
 - Requires more work / time than others?
 - Comparing work-load required

- Gives less profit than others?
 - Comparing to work-load required
- If not discussed before: Are you using any electronic system to other parts in the business than the above mentioned?
 - Why are you using an electronic system?
 - Since when (this question is asked to see if they have enough experience)
 - If they are using an electronic system, in what parts is the system helping out and how?
 - What is the system's advantages and disadvantages?
 - Is the system solving any bottlenecks? Is it creating new ones? What kind of bottlenecks?
 - Are there any parts that you think could be improved?
 - Are you confident in your system? Why?
 - What precautions have been taken into the system regarding professional secrecy?
 - Looking back, can you see that using an electronic system was the right decision?

Appendix 3 - Interview with Björn Markström at Jemtlands Pantbank AB

Common questions

- For how long has this pawnshop been run?
Answer: It was registered 1985 and running since 1986
 - If owner:
 - Why did you choose to run a pawnshop?
Answer: Took over an already established business 1985/1986. Wanted to try something new because I got tired of my old job.
- What is your common opinion about the business? What is your common opinion about your pawnshop?
Answer: The business has potential in developing several areas such as knowledge about products, how to find new customers and marketing. It is only ones imagination that sets the limits. The business has a potential to attract nasty types, though.
- Are there niches between different pawnshops?
Answer: It depends on the people that run them. Most owners have their own areas of interest and expertise. It also depends on what kind of items customers bring to the pawnshop.
 - If yes:
 - Which one is your niche?
Answer: He has a big range of products in his pawnshop. He knows a little about everything. The Internet is a big help for him. He visits other websites to see what others are charging for similar items.
 - Is this a deliberately chosen niche or is it a forced one, e.g. because of competition or the selection of article that customers pawn?
Answer: No, everybody is trying to have as wide range as possible within their field of competence.
- Do you see the business as stable? (If not, the chance that they are willing to invest will be less)
Answer: Yes, definitely! It is very safe to invest in this business as it has an increasing turnover and offices.
- How do you consider the pawnshop law?
Answer: As a hint for how to run the business. It's all about making a reasonable judgement both for the sake of the pawnshop and the customers. For example, when a loan exceeds 500 SEK, then Björn sends two reminders to the borrower even though the law only requires one reminder. Björn wants the borrower to renew the loan and make more money of it thru interest. For a loan that is below 500 SEK, only one reminder will be sent, there's too little interest.

Some things in the law are never questioned or changed, though.

- Describe how a lending is performed.

- **Answer:**

A new loan:

The customer brings for example a bracelet. The carat, weight and condition decides how much the customer gets. Own knowledge is used to make the judgement. Gold is valued based on its daily rate. In the beginning, this was a difficult task.

Too low valuation gives a smaller loan and there less interest. It is a balance walk. As a support, he often uses the Internet and studies other auctions. He mostly uses www.kaplans.se, to look at the gold and rock prices. He avoids electronic products because it is a constantly updating and changing business, usually offers a smaller loan anyway. The customer is free to depreciate the article if he/she wants. This can happen if the pawn is worth more than they need to borrow and at the same time they want to avoid interest.

After valuation the customer info is entered into an electronic system together with information about the pawn and the size of the loan. He bought his e-system the 21 of January 1993. If the customer has been there before he / she already exists in the system. The identification is done with a photo ID, drivers licence or a passport. A person that he already knows does not have to identify themselves.

When the registration is done a pawn ticket is printed. The pawn ticket has a strip with information about the pawn which the customer signs as an assurance that the item is theirs, according to Björn most pawnshops do not ask for a signature. The remaining part of the pawn ticket is given to the customer. Both tickets contain the same things. They contain all the information that the law requires, the only difference is the signature on the strip. After the registrations in the system the customer gets the money and pays a service charge.

Turnover:

The customer visits the pawnshop and pays accrued interest and gets a new pawn ticket.

Work procedure with a turnover:

The pawnshop owner brings up in the computer program with the help of a loan number. The old loan is filed but the data is recycled to a new loan with a new loan number and a window is opened to be able to make the changes. The procedure is then the same as the procedure with a new loan with the difference that the customer does not get any more money unless that the customer wants to increase the loan amount and Björn agrees to that.

Increase / instalment / derogation

The same procedure as above but the loan amount is changed.

The loan is to be held two months after the loan has expired.

- Are there any other procedures that are done by custom but is not a requirement according to the law?

Answer: No. But if it is a regular customer that has always managed everything very

good then the first possibility of selling on a auction is skipped to give them more time. The pawnshop then has the right to more penalty interest.

- Describe how an auction is performed

Answer: When a substantial amount of loans have expired a reminder is sent out both with e-mail for those who have accepted that and with regular mail, this is done with all loans that expired until a “brake date”. For email remind, the pawn program generates a list with borrowers that have accepted to be reminded by email. The list contains a summary of the loan. This list is exported, and then imported to the website. Then the web based system sends out a personalized email to every borrower in the list. Loans that expired after the “brake date” will have to wait until the auction after the coming auction.

The article is moved to an auction program where the auction catalogue is edited: the starting price, description of the article, and loan number. A pawn that consists of several items can be split up, for example it is matter of several gold rings. But they may not be put together. A loan is not divided into several articles from the beginning since it is only a few that actually goes to auction. It would be a waste of time.

The loan and auction program is run on a computer that does not have access to the Internet. So, the auction catalogue is exported onto a floppy disc and moved manually to another computer with internet access. The catalogue is then imported into a website. When the importing takes place the dates and time for the bidding starting and stop can be set. Products pictures are taken and uploaded.

According to the law an announcement has to be put in the local paper. The announcement has to be made in a newspaper where the local authorities are usually making their announcements. This is an old formulation in the law and he follows that. The purpose is to warn customers that he not has managed to reach, but this belongs more to the past. He picks the biggest newspaper in order to also reach potential bidders. Now that he has a homepage he also put ads in newspapers in other counties.

When the items are open for bidding, an e-mail function in the website system is used to send a message to existing registered users. Because the product information exists online he lets it manage itself. During the auction he is still contacted by customers with questions regarding products by phone, e-mail and visits to the pawnshop. All the bidding is made online. Because of this he has set up a computer in the pawnshop that customers can use for bidding.

The pawn may not be improved or deteriorated, just “dusted of”. He lets the borrower to redeem their pawn until the last minute of the auction. If this happens the auction for that particular pawn is stopped.

The results from the auction held on the website is entered to the auction program manually. It is set whether it is sold or bought by the pawnshop, if sold then to what price.

The end price is calculated based on lendend amount, interest and commision (25%). Everything above goes to lender.

Gold is sorted. Objects considered as not saleable are sold for liquefaction.

Saleable items are put up selling in the pawn shop and on the website. The price is often raised.

In the auction program, the end price is set. In the loan program, the loan is deactivated and archived in the archive file.

If a pawn was not sold on auction, it is also archive deactivated and archived in the archive file.

The auction program has a "shopping list" containing the items that has been bought by the pawn shop.

In auction program: The result of the auction including partial sums (if loan was divided) and whether the pawn shop bought the items them selves.

In the loan program: the final sum based on final bid or estimated value if bought back by pawn shop.

Items in the pawn shop for regular selling does not have an own list

Items for regular selling do not have a list of their own. Their existence is registered only in the auction archive as they were put in after the its auction.

At the turn of the year and inventory is made to estimate the value of the items in the pawnshop that has not been bought at an auction.

For selling items in store, a regular cash register system is used.

An annual report is made the last day of the year. Lists are printed and used for this:

List of all active loans printed from the loan program.

The archive file of the current year from the loan program.

List with loan that had their items put on an auction and the results of that (including items bought back by the pawn shop)

- Are there any other procedures that are done by custom but is not a requirement according to the law?

Answer: On the Internet has the first bidder precedence when two bidders place the same bid.

- Describe how article that has been sold on an auction is handled (The article can be bought by the pawnshop but this is no demand)

Answer: They are considered as the pawnshop has bought them back. The pawnshop owns the article and will get the surplus for themselves

All items are paid for in advance to an account or at the pawnshop. If the item is paid for in advance it will be sent to the customer, preferably using other service than Swedish Postal, Bussgods is an example .

Up till now has he not got any returns because of customer dissatisfaction. If this would happen and the pawnshop is to blame, the customer get all his money back. The Swedish Consumer Sales act covers this, but he does not know how long time of guarantee he is obliged to have. He requests all his customers to try the item out at home and get back to him as soon as possible if there are any problems. He always informs the customer if there is any damage on the article.

- Do you believe that your business contains of different activities?

Answer: Yes.

- If yes, what kind of activities?

Answer: Valuation, contacting and handling customers, which includes a lot of psychology, handling the pawn book and loans, handling auctions, selling.

- How big workload is each activity?

Answer:

Valuation: 15%

Handling customers: 15%

Handling the pawn book and loans: 10%

Auction: 25%

Selling: 15%

Other: book-keeping, janitorial, etc

- How profitable is this activity?

Answer: The most profitable thing is if the customer extends a loan and it is also the simplest. The next most profitable is if a customer makes a loan and then returns within a couple of days later redeems the loan. I.e. many short loans which in turn means many transaction fees. In proportion to time, auctions and selling are the least profitable.

Age and identification

- How is a borrower identified?

Answer: Photo identification, passport or known customer.

- According is the identification not mandatory if the customer is known for the pawnshop staff.
- Do you approve of such a procedure in your business?

Answer: Yes, but only if the borrower is known and has borrowed before.

- Is the identification obligation making any problem?

Answer: No the borrowers are aware that they has to identify themselves when asked.

Lending

- Are you taking any other compensation for the loan except the interest?
 - If yes, how do you decide this compensation? Does it differ from time to time?

Answer: Only a general fee, but this is not done always. Sometimes big customer are not charged the fee.

Pawn book

- Describe a pawn limited to what happens in the pawn book
 - Are there any exceptions?
Answer: Not that the loan program cant handle
 - How are these exceptions handled?
 - Are there any limitations?
Answer: No, he can register an unlimited number of items on the same loan.
- How do you manage your pawn book?
 - For example, in what format is it kept?
 - How is it filed?
Answer: It is filed on a zip-drive, year by year on separate files, but the active year record is built up as the days are gone by.
- Is there any supervision done by the county administration board or the police according to the law?
 - How often does this happen?
Answer: Sometimes
 - How does this work regarding the handling of the pawn book?
Answer: He just shows them the system and let them extract any information they want.
- The pawnshop has professional secrecy regarding borrower data, how is this secured?
Answer: He is the only one working at the pawnshop and the computer with containing the loan program is not connected to the Internet. The website contains information about the items themselves and bidders.

Closing questions

- Are you using any electronic system to other parts in the business than the above mentioned?
 - Why are you using an electronic system?
Answer: It was too much work-load and he felt that he had no real insight or control of the loans and articles. By the end of each year the annual accounts had to be done manually. Then annual accounts include the number of loans, lent capital, accrued interest, bought out loans, interest income, loan that has been on auction etc. Doing this manually was several days of work. The system he has now does all this within a couple of minutes.
 - Since when (this question is asked to see if they have enough experience)
Answer: Since 1992.
 - If they are using an electronic system, in what parts is the system helping out and how?
 - What are the system's advantages and disadvantages?
Answer: It saves a lot of time.

He wants to be able to load bulks of images. There are more things, but he don't want to specify them openly.

He sells much more articles now when he has a presence online than he used to and he saves money because the handling of the articles has decreased.

- Is the system solving any bottlenecks? Is it creating new ones? What kind of bottlenecks?

Answer: It has solved a lot of work that used to be done manually. The program that handles the loan fixes a lot of manual work.

- Looking back, can you see that using electronic systems was the right decision?

Answer: Yes!

Appendix 4 - Interview with Anonymous Pawnshop

Please note that the following has been translated from Swedish to English. Due to the request of being anonymous, the interviewee is referred to as “pawn broker” and the company as “pawn shop”.

Common questions

- For how long has this pawnshop been run?

Answer: Since mid 1980

- If owner:

- Why did you choose to run a pawnshop?

Answer: Wanted to start my own business. Saw a TV program about pawn shops and it seemed to be an interesting and fun business.

- What is your common opinion about the business? What is your common opinion about your pawnshop?

Answer: The business is rather conservative and has little space for updates. The county administration board in where the pawnshop is situated does not approve of online auctions. We still run online auctions even though no one has any paper that says that it is ok. But there aren't that say that it isn't ok either.

- Are there niches between different pawnshops?

Answer: Yes, a company called "Skapa likvida medel" has art as their niche.

- If yes:

- Which one is your niche?

Answer: Gold jewellery.

- Is this a deliberately chosen niche or is it a forced one, e.g. because of competition or the selection of article that customers pawn?

Answer: No, we have chosen this niche deliberate because it is easy to valuate and transport. Electronic products has no lasting value, products of today has no value tomorrow.

- Do you see the business as stable? (If not, the chance that they are willing to invest will be less)

Answer: The business is not very trade cycle sensitive. Loans increases when there trade cycle increases. It is believed that the reason for that is that people tend to be less careful and buy more stuff. It is almost always the same group of people that never has their finances under control.

- How do you consider the pawnshop law?

Answer: The law is very obsolete and should be updated. It is very consumer friendly though.

- Describe how a lending is performed.

- **Answer:** A person brings an item to the shop. If we do not approve of the article people often get angry, some people believes that the pawn shop always has to accept

the brought in articles. If the article is approved, it gets valued and the valuation seldom takes more than five minutes. The valuation is based on former selling and almost always on experience. Today is it not as risky as it used to be to accept rare articles; because of the Internet they are marketable some were. If we are uncertain of how to value a product is it always possible to call another, bigger pawn shop to check what the article might be worth, they generally help each other out. The pawn broker would like to have access to a central database, it would have been most helpful and the pawnbroker is positive in sharing information with others.

When valuation gold or silver, the pawnbroker uses the daily rates. The value on silver is seldom changed.

When the valuation of the article is done, the pawn ticket with all the information mandatory according to the law is printed. The pawn broker uses a computer program to register and file the entire information. If it is a new customer the pawn broker informs about how pawning works and what the fees are. Everything is printed on the receipt. After this is done the customer gets the money. The customer can choose to amortize, transform or raise the loan. In all cases the customer gets a new loan number. Pawn that belong to regular customers are often left in the pawnshop a longer time before selling on auctions because they like to keep recurrent customers.

As the customer buy the article out he/she return the pawn ticket, and then the article is returned to the customer.

The pawn broker always sends physical letters to customers and the letters is sent out 2-3 weeks before the loan period ends. The articles can be bought out until the auction is finished.

- Describe how an auction is performed

Answer: The pawn broker prints a list of all existing loans within a specific interval that are overdue, this list is used to send out letters. From here, everything that happens is done manually. The pawn broker writes everything by hand, using forms which contains information about loan overdue, only the loan number has to be written down by hand on these forms. The address on the envelope is also written by hand.

All articles are photographed and, if there are loans that contain several articles, they might be split up if he prefers to sell them separately. When this is done everything is put in manually in the online auction system. The date that states when the article is going to be shown online, when the auction begins and ends is set.

Before the auction begins, e-mails are sent to everyone who has registered on the website are sent out automatically. It is a good thing to put out the articles online before the auction actually starts to create curiosity. When the auction starts it is run by itself.

When the auction is over is messages to those who won articles sent out. All articles that remain unsold are marked on the homepage and are put up to be sold as in an ordinary store. The pawn broker usually does this the day after the auction so that customers are able to see the auction articles and notice that the auction is over.

The customer comes to the store to pick up their items or, if agreed, the pawn broker uses transportation by bus, Bussgods, to send the items to the customer. When all articles from the auction is picked up, the action is accounted, and customers has a week to pick up what they have bought. The accounting is done in the pawn system, everything is manually put in there and saved. The filing is done automatically, and one file contains one auction. Everything is filed in the pawn system.

- Do you believe that your business contains of different activities?

Answer: Yes, it is a big difference between the administrative work and valuation.

- If yes, what kind of activities?

Answer:

Administration contains all things that do not include any contact with customers. The accounting and pawn system counts everything automatically annually and he gets long lists with sums at the end.

Contact with customers means to explain to customers how the pawn shop works and that some articles lack of value.

- How big workload is each activity?

Answer:

Administration: 60%

Contact with customers: 40%

- How profitable is this activity?

Answer: The most profitable thing is turnover loans and they only take half a minute to be done, it is a permanent income. The second easiest is when both the customer and the article are known. What takes the longest time and is the hardest thing to perform is when the customer is unknown and the article is difficult to value.

When performing an auction he gets the same money but the work effort is heavier. Regular selling is more about getting the money back and not to make any profit.

- Are there activities done that you consider unnecessary?

Answer: The pawn broker wants the administrative work to be automatized; sending e-invoices (only turnovers), the pawn broker also like the communications with customers to be by e-mail which means that the pawn broker would like to not have to write any letters. The pawn broker thinks it is desirable to get rid of all manual re-writings.

- Are you conducting online auctions?

Answer: Yes.

- If yes, how has this influenced your business?

Answer: It has been much easier to sell articles and he saves time and above all money. When performing an online auction there is no need to involve any external auction company, which is a very good thing since they charged 10% plus VAT. He has heard of pawn shops that have been forced to pay even

though articles have not been sold.. Some pawnshop keeps the fee to themselves even though they don't have to pay it anymore.

Lending

- Is the, by you, estimated value of the pawn completely decisive for how big the loan is going to be?

Answer: Sometimes a higher loan is approved to regular customers.

Pawn ticket

- How is a pawn ticket handled in your business?
 - Does it differ from what is stated in the law?

Answer: No.

Pawn book

- How do you manage your pawn book?
 - For example, in what format is it kept?
 - How is it filed?

Answer: It is kept electronically in the pawn system. It is filed on the computer only.

- Is there any supervision done by the county administration board or the police according to the law?
 - How often does this happen?

Answer: The county administration board does regular check ups once a year. The police visit them when it is necessary. In bigger cities the police often has their own desk.

- The pawnshop has professional secrecy regarding borrower data, how is this secured?

Answer: The computer that contains the pawn system is not connected to the Internet and that is how it should be.

Closing questions

- Are you using any electronic system to other parts in the business than the above mentioned?

- Why are you using an electronic system?

Answer: It is flexible.

- Since when (this question is asked to see if they have enough experience)

Answer: Since 1992.

- What are the system's advantages and disadvantages?

- Is the system solving any bottlenecks? Is it creating new ones? What kind of bottlenecks?

Answer: It does not create any bottlenecks.

- Looking back, can you see that using electronic systems was the right decision?

Answer: Yes, it was definitely the right decision to make.