

Why do we exist as an industry?

George Lynn was struck by this question, posed by Lindsay Town last October at the 4th Leasing World Expo. Lindsay Town had put his thought-provoking question to the audience, whilst considering out loud the future of the asset finance industry, so he wrote to us, saying:



“We often hear the assertion at conferences that asset finance is more than just an adjunct of the banking industry, but rather a specialised product that incorporates expertise around ‘assets’ as much as ‘finance’. Whilst we may feel intuitively that this is correct, the fact that we have not successfully articulated an answer suggests that it is not straightforward to describe. This may be because of the internal balancing act of meeting the demands of asset management and the discipline of financial management.

In my own experience within the very specialised area of rolling stock operating leasing, it is difficult to position an asset finance business as

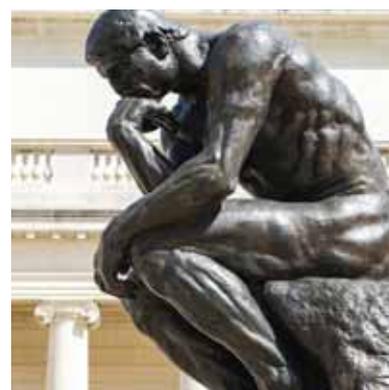
adding value to other industry players other than by merely providing finance.

I believe Lindsay raised this as a challenge to the industry, not in the spirit of protectionism but as a vital element of developing the UK asset finance business beyond the recent predominance of bank-owned entities.

I also believe that this is a key question to consider for the asset finance business, and would like to propose to Leasing World magazine that it invites its readers and followers to offer their thoughts in the form of an essay, of any length from 50 to 850 words, for them to publish in their magazine.”

→ I believe this is a key question to consider

On reading George Lynn’s letter, Leasing World quickly agreed that we were keen to hear peoples’ thoughts as to why we exist as an industry, and how this will sustain us into the future. Of course, we’ll print all the good ones in this magazine, and to add a bit of fun, we’ll offer a bottle of Champagne to the best submission we receive overall (we’ll draw the line at May 1st, 2013).

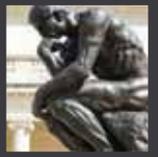


Personally, I feel our industry has changed shape a number of times in the 30 years I have been involved with it. Rather like the planet Earth, spinning in space, the leasing industry has been the beneficiary of some fortuitous sets of circumstances which led to several golden eras. However, it has also had some hard hits from its own form of asteroid impacts which caused disruption and damage. For example, a desire for greater regulation of financial markets is leading to a global revaluation of credit, who should get it, and how.

In my view, the answer to our industry’s continued sustainability will rely on the answers to two questions, (1) Do customers want what we can provide, and (2) Can we provide what customers want? However, I admit that answer may be possibly stating the obvious. Editor

Why does leasing exist?

Leasing World invites readers and followers to offer their thoughts on this subject, in any number of words, and we'll offer a bottle of Champagne to the best submission we receive by May 1st, 2013



Dr Peter D Hahn, Faculty of Finance, Cass Business School, City of London

Do overused words or concepts (e.g. lease or leasing) lose their meaning?

I can't think of a better question to ask about leasing. Though perhaps asking whether overused words gain negative connotations might be better. In some senses everyone thinks they know what leasing is; the Wikipedia definition couldn't be easier: "A lease is a contractual arrangement calling for the lessee (user) to pay the lessor (owner) for use of an asset." But it isn't that simple.

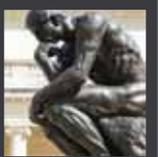
I worked with a business that arranged tax leases for businesses where it was pretty obvious who the users were while teams of lawyers were working hard to rearrange who the owners were; leases for government entities often appeared as simple abuse of poor government controls and accounting; and leases for the transportation industry were little more than secured lending. I was the chairman of a very large car fleet leasing business, which was mostly about outsourced asset management, while renting a car at the airport last month I was happy that leasing was about convenience.

Compare that to the bond business – a much larger business and it takes just one lecture to explain to business school students. Is it a wonder that leasing is largely absent from

finance textbooks? Yet, leasing is certainly used by more business than the bond markets. So perhaps one answer to what is the leasing business is a simple definition about being a source of capital provision and shedding the rest? That is certainly what smaller businesses care most about and which in a tighter tax focused world might attract less negative publicity to the leasing industry.

To the leasing industry's advantage, Europe's SMEs aren't well suited to the bond markets though some on-going web experimentation in the bond markets may be a guide for the leasing industry. The standardisation is web-funding. SMEs rely on banks for bespoke credit arrangement, these are often costly and inefficient and bank capacity is shrinking – particularly for bespoke loans. SMEs are slowly looking to bypass banks direct lending through web-funding. Is this an opportunity for a larger leasing industry?

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George Lynn, Managing Director of Crawford Lynn, prior to which he was CFO of Angel Trains Group

Many of us have witnessed this slow and lingering demise within our perspective of the leasing industry, and have seen much talent leave the industry for other more exciting and higher profile parts of the finance world, writes George Lynn. This issue of "why do we exist" comes from a need to see and imagine a continuation of a specialist part of the finance sector dedicated to the supply of finance for capital assets

When Descartes pronounced in 1644 "*cogito ergo sum*" ("I

think, therefore I exist") he was proposing a dualist functioning of the human being between Mind and Body. In his thoughts, the mind could exist separately from the body in which it inhabited. We now know through neurological advances, that the conscious mind and physiological operations of the body are very much one and the same.

The question about existence of a "leasing" product reflects on a form of dualist thought. Can and does leasing exist as a separate

industry from that of banking and finance? Borrowing from Descartes, “We have the FLA and Leasing World, therefore we exist.” But is it true that we exist as a separate industry, and if so, is it important? For those of us who have thought of ourselves as working within an important part of the UK and global economy it has been important, but is that just history now? How do we see the industry developing in the future? There are many who believe that the future of leasing is in emphasising the asset element of “asset finance,” as that is something that sets us apart from unsecured bank lending. But before jumping to a conclusion, perhaps we should pause to reflect on the fundamentals of the industry?

As any economist will tell you, there is no point in providing supply into a market, if there is no demand for the goods. So where does leasing fit into an economy like the UK? We know that regularly between 20 percent-30 percent of UK non-property Capital Investment is financed by asset finance products provided by FLA members. That is a significant contribution to the UK economy. Businesses need capital assets to produce goods and provide services, and the capital used to invest in such assets will come from the owners’ own capital, or capital advanced by third parties as debt. Following the Capital Asset Pricing Model, investment in capital assets is made by a mix of debt and equity, each with their respective costs of usage which are blended into the weighted average cost of capital (“WACC”). A business owner will invest in capital assets which generate returns greater than the WACC.

Anticipated usage is a vital aspect for owners investing in capital assets. Some businesses have time-limited need use of assets, either through seasonal or other fluctuating demand for capital assets, or for a limited specific time period within the operational life (for example, only using new cars for the first three years of asset life). The supply of these capital assets through renting/operating leasing is a fundamental feature of the leasing and asset finance world to which I will return later. The other asset usage aspect on which I want to look at now is acquiring capital assets for permanent use within their business.

One can argue that much of the source of uncertainty and questioning about future existence is as a result of some market distortion in the past of leasing for the provision of permanent capital assets. Two key factors stand out:

Lessors purchase, and take ownership of the assets that are leased, and so the business owner is not necessarily required to invest any capital at the outset of the use of the asset. Without any compensating adjustment to the WACC this factor reduces the asset investment hurdle rate to the implicit lease rate. The extent to which lessee balance sheet accounting assisted in reducing the impact on lessee’s reported gearing ratios would have produced a natural bias towards leasing as a finance product,

In economies with significant manufacturing and other asset-based generators of economic growth then the prolific use of capital allowances by governments can stimulate GDP growth by further reducing the amount of capital required by owners to invest in capital assets.

Looking back over the last half century, certainly in the UK economy, these market distortions and government interventions

fuelled a significant amount of the growth in domestic and international leasing businesses. Looking at the current economy, where are we now?

The accounting world may still be slowly catching up, but now investment professionals, analysts, and treasurers correctly factor all forms of asset finance obligations into WACC and gearing calculations,

Manufacturing only accounts for 12 percent of the UK economy (compared to over 30 percent in 1970), whereas services account for 77 percent. The “sledgehammer” use of capital allowances will not have the same impact on the growth of the UK economy in 2013, as it may have done in sustaining the country in 1973.

Large value asset investments are less likely to be made within operating businesses, but detailed information management systems allow for capital assets to be financed within whole business project cash flows operating within special purpose vehicles. Investors and financiers divide up operational cash flows within complex “waterfall” arrangements, and the capital assets appear to be intrinsically tied into the success or failure of the projects.

Any industry based on the foundations of market distortions was bound to fall into decline at some stage. Many of us have witnessed this slow and lingering demise within our perspective of the leasing industry, and have seen much talent leave the industry for other more exciting and higher profile parts of the finance world. This issue of “why do we exist” comes from a need to see and imagine a continuation of a specialist part of the finance sector dedicated to the supply of finance for capital assets. And as we have seen, asset finance remains a significant part of financing UK Capital formation, and so where does it go next? If it exists as a separate industry, then there should be an economic future for it.

There is a view that as asset finance has been, and continues to be a significant source of finance within the UK population of small & medium sized enterprises (“SMEs”) then serving this section of the economy is the future of the industry. Developing a future with this sector certainly “ticks many boxes” in the current political minds of the Government, HM Treasury and BIS, and clearly supporting businesses at a smaller stage of their business cycle may foster customer loyalty for continuing business as they grow. The leasing and asset finance industry could continue its existence by becoming the financing champion of the SME sector.

Personally, I believe that this debate is one fuelled by politics and official statistics of the moment rather than a medium term economic proposition because:

- The definition of SMEs includes almost all of the limited companies and unincorporated businesses in the UK, and so to differentiate merely on size of enterprise is not very informative about sector, geography, industry, capital asset need etc.
- As SMEs are such a wide population of potential customers then channels to market will vary considerably, and will include significant levels of intermediation through dealers, brokers, manufacturers etc. Getting close to underlying customers in order to understand their needs cannot be straightforward for lessors.
- Providing asset finance products for broad customer segments, seeking high volume, lower value asset intermediated

transactions probably limits asset sector differentiation to equally broad categories e.g. commercial vehicles, office equipment etc. Customers are not seeking asset knowledge or expertise from the lessor, and

- We can see from the continuing reported contraction of net lending that the Government can support all sorts of schemes to make funding widely available and at a reasonable cost, but won't be taken up unless the business wants to or needs to invest capital.

In previous economic downturns government incentives to invest in capital assets and to build up stock for sale appear to have had real effect. In the UK, with such a significant reliance for growth driven by the service and consumer sectors with limited use of capital assets, and using "just-in-time" stocking then perhaps a different sort of focus is needed. Having a strategy for the leasing & asset finance industry based upon such broad market dimensions will undoubtedly fit the current political agenda. Being able to demonstrate the impact and effectiveness of the industry with such a broad church, and thus build a sustainable and separable existence will be difficult.

Returning to the theme that an obvious and basic purpose of leasing & asset finance is to provide capital to the business owner to investment in capital assets, then the question for me is why not explore this in more detail in order to determine "why do we exist."

In the previous description of capital assets, we considered that a category of natural customers for leasing & asset finance would be those with a time-limited imperative in their use of capital assets. However it is not simply about the timing of when asset are deployed in the business; working to optimise utilisation of energy, spares, and inputs are also important. Efficient use of capital is fundamental to any business. Operators within the modern economy need to seek and root out inefficiencies in the deployment of capital and resource not only within their own businesses, but also the supply chains of which they are part. These signs are part of our current world, namely:

- Focus on diversified and specialist sub-component manufacturing, linked electronically with

- Major component and final product assembly sites determined by optimised capital & resource quantifications
- Stocking, distribution, sales and other services provided by outsourced independent & specialist contractors
- The adaption of using capital assets within business shows a concentrated focus on competitive advantage, capital investment, and aiming to do what is done perfectly.

My observation about the future of the leasing & asset finance business is to look and learn from how customers have developed to meet their own customer's requirements. I would rephrase the original question from "why do we exist" to "why should we exist"? I don't believe that is to serve the amorphous customer segment called SME's, but rather to develop asset-focused strategies that work with customers in specialised sectors to:

- Maximise the efficient use of assets across businesses, including
- Supporting pay-for-use systems,
- Facilitating asset-sharing utilisation,
- Active asset management, including asset re-cycling
- Supporting spares and consumable sourcing & stocking
- Supporting maintenance capability
- Providing energy & fuel consumption monitoring
- Working to prolong asset economic life cycles
- Supporting asset industry R&D and innovation

Any industry exists in the long run only to the extent that it continues to meet the demands of the customers in the long term. It is true that many customers for capital assets just want finance at the lowest cost, and with the least amount of administration; for these, leasing and asset finance cannot be anything other than a subset of the portfolio of lending products. On the other hand, if the leasing & asset finance industry needs be differentiated then I believe that a focus on supporting the efficient use of capital assets is the way forward.

These are my personal views and reflections, gleaned from having worked for over 30 years in different leasing & asset finance businesses covering diverse asset sectors including agricultural equipment, cars and commercial vehicles, printing, IT and office equipment, rolling stock and property. It would be interesting to read others' views....



Chris Boobyer, Senior Partner of Invigors EMEA LLP

The fact that the question has been asked in these difficult times is an indictment on the industry and those within the national associations for not properly promoting its value and worth to businesses, opinion formers and governments.

Leasing in its many forms is simply a product that allows the user to pay for the cost of new or used productive equipment from the profits of the equipment output. Often there is no material upfront or down payment and the financing period is geared to the productive life of the machine. If the equipment

lasts longer than expected, or the user wishes to continue using it because of the lack of demand for replacement equipment, or to continue using it in addition to an additional piece of equipment, then the leasing product has all the capability to do that – with no fuss, no bureaucracy, and no time wasted in agonising decisions about financing options.

Access to the leasing finance is widely available through manufacturers' finance schemes for their own equipment, and not just their own as increasingly manufacturers will fund

additional equipment from other manufacturers; access also comes from an efficient and national network of brokers who are generally fully trained and in tune with the needs of local businesses . . . and who know which lessors a deal will suit. Finally, there can be direct approaches to lessors which these days is usually through known and existing funding relationships or by recommendation from other customers.

The recent Government funding schemes all cite “additionality” as the reason for entering the market with new funds for lending in all of its various guises. Leasing has always had “additionality” in that one of its main benefits has been as an additional funding facility to bank lines. Businesses got used to using their bank for all forms of cash flow finance but quickly learned that term lending for buying new productive assets, or even cars, quickly used up a bank’s appetite and capability to lend more money.

Therefore, leasing quickly became the product of choice for acquiring business equipment in the secure knowledge that this additional financing channel would have little or no impact on existing bank facilities or any future requests for additional bank lending.

Why then, in these difficult economic times, when banks, rightly or wrongly, are being chastised for not supporting

business properly, are we having to ask the question “Why does leasing exist?” It is the obvious answer to many questions about lack of productive investment and lack of stimulus in the SME economy in particular.

Those of us who are involved in the industry on a day to day basis know that the level of demand from small businesses remains high, in stark contrast to the “lack of demand” defence put forward by banks to Government over their lending performance. It is simply not the case, the problem is lack of supply.

The immediate response of Aldermore, Investec and others to the demise of ING Lease (UK) demonstrated once again the affinity, empathy, understanding and the connection between lessors and their marketplace. The leasing industry knows its value and values; it is out there every day helping businesses, large and small, make a difference to the respective local, regional and national economy.

Given the lack of energy and attention given by other funding sources, why does leasing exist? Well, look at the billions invested through it every year – recession or no recession. There is no other tailored funding solution available for the purchase of new and used equipment by UK companies, of all sizes, and there hasn’t been since it was introduced into the UK over 50 years ago!



Rev. Dr. K. Bill Dost, Managing Director, D&D Leasing UK

Personally I think a better question is perhaps what right do we have to exist as an industry? I.e. what are we doing to continually prove we should exist? Certainly, as a funder, especially in the niche that we service, I believe our reason for being is to provide customers a no hassle way of acquiring equipment they may not be able to purchase outright in the furtherance of their business. A simplistic view? Perhaps, but maybe it’s in overcomplicating things that we go wrong. Small ticket leasing was founded on the main ideas of cash flow servicing ones obligations and an attempt to avoid the headache of equipment acquisition. We the leasing companies agreed to

make this simple and easy for our end user customers; I think at times we have really forgotten the plot. It’s when we overcomplicate the matter for the customer that we start to lose our reason for being. We need to be proud of the function we serve, which is to help, to assist and yes to SERVE our end user base in equipment acquisition, and to be clear, it’s also our job to stop them from acquiring assets when they don’t have the strength to manage payment of them. I believe it really is understanding this need to help the lessee that should drive our actions, if we keep their needs on the forefront, we shouldn’t have to defend our need to exist.



City Slicker – author of Leasing World’s City Chatter column

Leasing will always exist because there will always be a need for instalment credit.

The Lease Society: the end of ownership – Judith Merkies MEP

Although MEP Judith Merkies did not actually enter our Why Does Leasing Exist? competition, we saw her Lease Society paper aired in Leaseurope's Inside magazine, and felt a synopsis should figure among our other entries, because the idea is bold, and concerns leasing in a big way because it paints an amazing possible future for leasing

Additionally, the Germany-based Wuppertal Institute for Climate, Environment and Energy was commissioned by the European Parliament's ENVI Committee to carry out a study on the feasibility and implications (on the environment, economy and society) of a Lease Society, and we print some of their conclusions.

Two thousand years ago Aristotle mused that: 'True wealth is the use of things, not their possession.' Oscar Wilde phrased it, eloquently as always, as 'the recognition of private property has harmed Individualism [...] by confusing a man with what he owns [...]. So that man thought that the important thing was to have, and did not know that the important thing is to be.'

Some people have made the link between wanting to own things, and the manufacturing system necessary to serve it. Once someone has bought ownership of a thing, how does a manufacturer get them to buy another one - they can't, unless the thing completely wears out which could take ages. So, planned obsolescence was invented, so that manufacturers could keep selling, and hence stay in the business of producing. This desire on the part of the consumer for ownership in order to benefit from long term use of the thing, and the manufacturer's need to keep producing and keep selling the thing, is referred to as the innate conflict of interest between consumer and producer.

Planned obsolescence is now blamed for the relentless production of things, the associated wastage of things being trashed after too short a life, and the strains on natural resources and energy. Because of the pressure on natural

resources the movement to conservation is now high up on most governments' agendas. Enter Recycling, but getting extra cycles of re-use is more beneficial than just recycling on its own.

→ It's much more than just a widespread leasing of goods with positive spin-offs

So, in a nutshell, the idea is that manufacturers start to make things that last much longer than at present, that aspects of the thing they make which are likely to be improved over time are designed to be easy to upgrade without having to trash the whole thing, and that the thing is designed with its final recyclability in mind. This new thing will be more expensive to buy, but long term leasing deals will translate the extra investment into a low utilisation cost.

So, it's much more than just a

widespread leasing of goods with positive spin-offs, even though a widespread leasing of goods would be a great achievement for our industry. It is also about finding the best way to fulfill customer needs, generally in new and more service-oriented ways. It implies a new relationship between producers and customers as it changes traditional notions about product ownership and responsibility. Increased producer responsibility may create incentives for more resource-efficient product design, especially to prolong product life, enable easier remanufacturing and optimise utilisation. The planet will breathe a sigh of relief, users will breathe a sigh of relief at avoiding the headaches and worries of ownership, and manufacturers will be happy to keep busy, keeping everything working smoothly. ■

J.A. (JUDITH) MERKIES (BORN 28 SEPTEMBER 1966, LONDON, ONTARIO) IS A DUTCH POLITICIAN FOR THE LABOUR PARTY (PARTIJ VAN DE ARBEID - PVDA). SINCE 14 JULY 2009 SHE HAS BEEN AN MEP.



Photo © European Union, 2010

Judith Merkies graduated with a law degree from the University of Amsterdam and pursued a career as a lawyer before taking on post-graduate studies in European and International Law at the same university. Merkies has worked for the institutions of the European Union as well as for various industries. Prior to becoming a Member of the European Parliament Merkies worked as a Project Manager for the Education, Audiovisual & Culture Executive Agency (EACEA) of the European Commission. From 2005 to 2006 she worked as an executive manager at the European Music Office, an international non-profit association bringing together professional organizations, associations and federations from the music sector within the European Union. From 2000 to 2004 she worked as a representative of professionals and companies in the Dutch film industry.

Why does leasing exist?

Part Two of Leasing World's invitation to readers to submit entries on the subject of the Why of Leasing, and with a dozen entries published, the winning entrant is announced on Page 36



Lindsay Town, MD Kent Asset Finance

When I made the comments that started this interesting debate back in October, 2012 it was just another iteration of my attempt to keep us thinking about why we exist as an industry, not just for intellectual fun, but because I still see us as an endangered species, and it is important to note here that I do not mean an endangered product. Unlike many endangered species though, I firmly believe that we have the ability to stay off that list if we focus carefully and imaginatively on our place in the economic environment that we inhabit.

Here is the tough part, it's not about what we do or how we do it, it is all about why we do it; in effect what it is that defines us and makes us relevant. It sounds simple, but it isn't. It is absolutely correct to assert that leasing will always be around, but just as overdraft and simple loan products, the product does not require an industry with its own identity, systems, trade associations etc. (I haven't come across the Association of Overdraft Providers).

We have our identity as a viable industry because we are different, offer something that others can buy into and, almost as an afterthought, there is a product. My thinking was helped a lot from a chance conversation with the redoubtable Andy Denton that led me to an interesting character, Simon Sinek [author of "Start with Why" - Ed.], who has done a huge amount of excellent work in this area.

At its most fundamental, my belief is that as an industry we are here to help businesses acquire and sell capital goods. Therefore, we are at the forefront of economic activity and in the vast majority of cases we don't get distracted from that simple mission. It does not matter one iota if we are dealing with operating leases, finance leases or hire purchase, cars or ships, Boeing or Panasonic, local government or multinationals, the principles are the same. For some the "how" or "what" needs to be to do with service, or risk transfer, or any number of specific features that apply to the product aspect, but it is why a lessor addresses those needs that defines its success and whether we have an industry.

Our rationale for being an industry is that, apart from the requisite risk based and lending skills, we understand assets, we understand the manufacturing, use and sales process relating to those assets, and through that knowledge we help our client base and produce an attractive sustainable return for our stakeholders. We focus on the real economy, the deployment of capital goods of all types, and there can be little that is more relevant to a

modern economic model. This is perhaps a simplified rationale; the nuances of product variations make the differences starker between each provider.

Or do they? In my view of the industry, there is vastly more that unites the providers than sets them apart. I can envisage many a shaking head – can an aircraft lessor be compared to a contract hire company or to a small ticket vendor finance provider? In my view they can be, the principles of acquiring the right assets at the right price, managing an asset "in life" and disposing of an asset to new users or final sale – all are common themes, the industry "DNA" if you like. I have had the privilege in my career to be involved in asset finance businesses that have covered the whole range, from contract hire to cross border marine and aerospace, and most types in between, and to have worked with great people from incredibly diverse backgrounds. But I see those common themes that gave me a sense of belonging and identity irrespective of the asset or underlying sector.

Yet we have issues. We struggle to increase the flow of new talent into our industry; we struggle to remain at the centre of many stakeholders' agendas and we have to fight far too hard to remain at the centre of government interest in economic stimulus. At the edges we blur into specialist lending businesses that do not see themselves as connected to our industry, such as aerospace or marine, where many "ex-lessors" have in fact ended up. So why, when we are so central to economic growth and activity, have we managed to become anything less than a dominant force? Perhaps we have failed to change with sufficient pace or make our relevance clearer, or embrace the harsh reality of stakeholder issues, or as I think is the case, a little of all those aspects.

I have no issue with change. As an industry we should thrive on change and arguably we need to encourage a faster and more dramatic pace. Though possibly controversial, it is not impossible to envisage an industry not too long from now where the bank groups play no material direct role other than as "wholesale funders" competing with private funds, and investment organisations, for the income streams generated by the new dominant lessors. The creativity, customer relationships, energy and market drive in such a view being provided almost exclusively from non-bank sources. There is nothing wrong with that simplified vision, nor is it the only possible future. The point here is that we have to grasp some vision of a future that goes

way past the near term challenges.

We also need to engender a renewed enthusiasm for what we do, which I see as waning under the increasing burden of current issues. The prime rationale for the industry's existence, to be at the forefront of the manufacture, sale and use of capital goods, should surely be an easy topic on which to excite people.

Leasing as a distinct industry is not a right, it's a privilege to be earned, developed, and protected. Not protected in a way that looks

backwards but in a way that responds to where I started this short ramble: – “Why do we exist?” not “What?” or “How?”. To keep the “Why?” fresh and relevant is what will keep the industry relevant. If the “Why?” isn't relevant to the wider economy, then leasing becomes just another product, and for that we do not need the infrastructure or support framework, which to my mind would be a shame, and an inglorious exit for an industry that has financed so much of the world's assets.



Artti Aurasmaa, CEO 3StepIT

What leasing companies can learn from the IT industry

I've been following some interesting discussions around two fundamental questions: ‘Why does leasing exist?’ and ‘What is the future of leasing?’ One of the most interesting discussions took place at the Leaseurope CEO council, where industry leaders exchanged ideas related to innovation and attracting talent. Some of the world's leading IT companies were used as benchmarks in terms of attracting the top talent, and therefore being able to remain innovative. Although the leasing industry clearly has quite different characteristics to the IT industry, I believe there are several lessons to be learned from the most successful IT companies. There is no reason why a similar level of success couldn't be achieved within our industry.

When we talk about IT companies we often focus on a handful of world leaders in different sectors of an increasingly broad industry. Companies like Apple, Google, Amazon and Facebook represent a small fraction of the companies in the field of IT, and hence my first conclusion is that instead of talking about best practices across the entire industry, the most interesting lessons can be learned from a small number of pioneering companies. In a similar fashion, I also believe that within the leasing industry we could see increasing polarisation, where the pioneering companies find new and innovative ways of attracting the top talent and developing new value-adding services, while others remain stuck with the old ways of doing business. So rather than trying to copy best practices from one industry to another, I believe in benchmarking and learning from each other at a company level.

So what makes the leading IT companies so special? Although there are as many answers to this question as there are successful companies, there are a couple of simple observations that can be made. Firstly, all these companies have managed to properly answer the question, ‘Why do we exist?’ I don't think they are that interested in why the IT industry as a whole exists but, just like Apple, they have built successful businesses in collaboration with their employees, partners and end customers based on the meaning of their own operations.

Collaboration leads me to my second observation: none of these companies would have achieved success alone – the value-added services they offer are always based on specialisation enabled by ecosystems. The different players within the different ecosystems may have very different roles and reasons for existing, but they can

all be very successful with different approaches – as long as they stay true to their core business and beliefs. We are currently witnessing a very interesting battle of the ecosystems, where Apple, Google and Microsoft are all vying to win out as the leading platform for the mobile era after the dominance of Windows since the 80s. Nobody knows yet who's going to win, but my prediction is that instead of technological superiority, the winning strategy will be based on effective management of the entire ecosystem.

My third observation is related to time horizons: the most successful businesses have been built for the long term. Instead of chasing quick wins and cutting expenses in the short term, the most successful businesses have continued to invest in new innovations – and they have never stopped dreaming. A great example of such long-term thinking is the letter sent to shareholders by Amazon's CEO Jeff Bezos in 1997 when they went public, where he explicitly stated, “It's all about the long term.”

So how do these three simple observations apply to the leasing industry? My humble opinion is that each and every industry player should first define why they exist. After that we could begin to view the leasing industry as a great ecosystem or platform with many different types of players, who together can provide amazing new services and added value for end customers, vendors, consumers – and society as a whole. These value-adding services can be related to more sustainable ways of using fixed assets, improved ways of distributing capital to the real economy, further development of global e-commerce, or something completely different. However, these goals can only be achieved if businesses are willing and able to take a long-term view and have the guts to continue investing in it. We're already seeing new entrants to the industry taking advantage of the great opportunities to be found in asset finance and related services. These new entrants have already figured out why they exist, how to create winning ecosystems and how to run a business for the long term – and we have seen in the IT industry how a new entrant with this knowledge and commitment can quickly become a globally successful business. In order to stay ahead of the pack and maintain competitive advantage and customer loyalty, it is vital that the leasing industry's current leading lights continue to innovate and invest in long-term business models. The lessons are already there for us all to see.



Sean Toms, Managing Director Robinson Toms Recruitment

Leasing exists to provide customers with an additional unsecured route to acquire the benefits of use of an asset without the burdens of ownership, and for suppliers to offer their customers a simpler and easier method of acquiring assets and the benefits and / or revenue generation opportunities that use of those assets provides them.

Use of leasing varies widely, and lease penetration levels equally widely, across asset classes. Penetration levels are historically highest in the small ticket sector, and across assets like reprographics, franking machines, and low end telecoms.

The reasons for this are simple: in the 1960s the leading manufacturers or sellers of these assets viz. Xerox, Pitney Bowes, the GPO (aka BT) dictated the method of acquisition. You could not buy a Pitney Bowes franking machine base unit or a Xerox plain paper copier in those early days, and before deregulation of the UK telecoms sector your choice of phone system was rented PBX from the GPO.

→ Lets get out and sell leasing like it should be sold, confidently, and pro-actively

As a consequence, customers of these asset classes became used to renting them and not owning them, and critically supplier sales staff were also well trained in selling the benefits of leasing and often offered a rental solution often as the only route of acquisition, this of course maintained sales margins handsomely!

With competition and deregulation across all sectors, sales staff who then migrated to more highly skilled and complex positions and in particular those selling the latest hot IT product / software solution found they no longer needed to know how to use leasing to sell their products, and the valuable lesson of selling what the customer needed, not what his budget was, was often forgotten.

Added to the above, lessors have chased volume relentlessly, and often volume over profit, and the balance of power has shifted often to one major supplier playing off several lessors for the cheapest rates which gained them access to regular business in multi million pound volumes.

Too often major vendor programmes have been launched by independents with no clear CEO level commitment from the vendor partner to the actions needed by their staff to make leasing deliver its full potential.

Captives exist for the primary reason to drive up the sale of the parents' products and services, but like the independents too often the mind share they have with their parent is too little to ensure

proper pro-active use of finance, and as such the full benefits of leasing to them and critically their customers go unrealized.

The solutions to increasing the use of leasing and therefore its benefits are not rocket science but can be summarized as follows:

- Ensure that all customers are always provided with a compelling written finance solution to ease their acquisition – no exceptions.
- Incentivise financially supplier sales staff to sell lease over cash because of the inherent supplier benefits, (better account control, reduced debtor days, larger orders, reduced time to order, better margins etc), the asset seller should do this out of their added margin, not add the sales incentive to the rates.
- Build compelling finance propositions into all new product launches and all marketing collateral for all products
- Set supplier sales staff finance penetration targets, reward achieving them, punish failure.
- Build use of finance into appraisals of sales and sales managers performance.
- Build effective lease training into induction programmes for all new starters, target training to the non users and / or the habitually low lease penetration individuals
- Conduct a leasing skill set analysis of all existing sales staff, (just because X has been here for 10 years does not mean that he / she knows about using leasing)
- Share sales force pipelines with partner funders to allow funder staff to gain early visibility of deals
- Allow finance partner staff access to customers to drive up lease penetration
- Have a shared vision with your funding partner as to what you are trying to achieve and by when

In the case of middle and big ticket direct driven business, in many respects leasing gets a fairer hearing as by definition most customers spending £20 million on an asset are going to look at external finance solutions. However, here too often leasing and its benefits are not understood, in particular by bank staff or professional introducers, and it is too often easier to simply offer the customer another vanilla bank product.

It is incumbent on asset finance subsidiaries of banks to be better at selling their real value to their bank colleagues or professional introducers and in turn the benefits of leasing to their customers.

Research shows that is three times more expensive to win a new customer as it is to sell to an existing one. While the long awaited recovery continues to build leasing has a strong part to play in helping suppliers, banks, brokers, packagers etc win those new customers and crucially to retain existing ones.

Lets get out and sell leasing like it should be sold, confidently, and pro-actively.



George Ashworth, MD Asset Finance, Aldermore Bank

Perhaps I am being too simplistic but I do not see the question as philosophically challenging. Asset Finance is merely one form of money lending. Therefore, it is probably the second oldest profession in the world. Further, the term “Asset Finance” is an umbrella term that describes collectively a set of products that are better legally defined as hire purchase, leases and loans. For the purposes of definition, the word industry, I believe, should be interpreted as the supply side providers of these products.

Why do we as an industry exist? For me, the answer is grounded deeply in the historical roots of asset finance. They may have acquired some grander marketing terms but the canons of asset finance lending have not really changed since the industry was first created. Whether the asset is a railway wagon or a family car, the *raison d’être* of the industry has been about facilitating the acquisition of assets by 3rd parties (or rather the economic utility directly or indirectly associated with the asset purchase) whilst allowing the 3rd party acquiring the asset to spread the cost of the acquisition over future time periods, in a manner that allows the party to use future cash flows (directly or indirectly associated with the asset) to meet the scheduled repayment obligations. We exist therefore to facilitate 3rd parties (whether they be consumers or businesses) to invest in themselves, their businesses in order to build value in a manner that sees the provider of risk capital being secured predominantly on the underlying asset being acquired.

Is there more to the question? Possibly. As posed, is the

question really referring to the structure and composition of the industry? As stated, Asset Finance is just one form of money lending, albeit an important one. We are aware that asset finance to-day accounts for approximately 30% of all gross fixed capital formation (excluding property). Further, the players within the industry fall broadly into three categories – (i) product platforms sitting within a much larger organisation, bank owned or otherwise, (ii) independent stand - alone operations, or (iii) captive finance businesses. Irrespective of the nature and form of these businesses, in whatever form they exist, they exist to meet and service client needs. This is true whether the business model employed focuses on the needs of the end user, the intermediary (broker and/or vendor) or the parent manufacturer (as in the case of a captive finance operation).

Markets tend to consolidate over time and asset finance is no exception. The industry will continue to change in terms of its composition and structure. However, from a personal perspective, I do not believe the *raison d’être* of the industry will be impacted negatively by such changes. I believe that serving clients (whoever the client may be) will remain at the core of the industry’s existence. Whether this is delivered from a product platform embedded within a bank, or from an independent business makes no real difference to the ultimate aspiration of serving clients. Structure at the end of the day is merely a means to deliver a competitive strategy. The future of asset finance businesses lies, as it ever did, in their own hands.



Allan Foad, retired leasing professional (Deputy MD of Lloyds Leasing) and contributing editor to Leasing World

I have studied the debate on this question in recent editions of LeasingWorld and, in truth, have little to add to what has already been said. To me the simple answer is leasing exists because it is a tool in the asset financier’s tool box and it will continue to have its uses.

The asset finance industry has always been creative. Historically, it has always been too creative for HMRC but, that aside, it has always found ways to give its customers good deals and, more importantly, it has strived to give them what they want. I doubt that the banking industry can claim the same.

If a company asks its bank for finance for equipment, I suspect that the take it or leave it response will be a loan, either with or without security, with regular repayments over a defined period. Banks are not renowned for tailoring deals to fit their customer’s

requirements. Lease structures, however, are far more flexible and rental profiles, for example, can be designed to match cash flows and the terms for leases can be longer than those for loans.

As we all know, leasing, particularly finance leasing, has taken a battering in recent years from the withdrawal of capital allowances, lower tax rates, more restrictive tax legislation, unhelpful accounting standards, and a weak economy. All of these have combined to make the finance leasing tool less useful.

I do not think that the same applies to operating leases but I suspect that this tool is one that is better used by asset specialists rather than financiers. Properties of all sorts have been rented for centuries by landlords who, first and foremost have understood the value of the buildings they have owned. The credit standing of their tenants has been secondary because they have always worked on

the basis that if one defaults, they can evict them and find another.

In the financial world we are less confident with this rationale. Our asset knowledge is not as good, defaults are more problematic, and our shareholders are not always comfortable that we know what we are doing.

If we, therefore, hone the question down to why does leasing exist in the asset finance industry, I think the answer is because it is a tool that can be used on certain occasions. Speaking as someone who used to finance a range of assets in a variety of ways, I always felt more comfortable being an owner rather than a secured lender. If a customer falls into financial difficulties he is far

more likely to miss a loan repayment than his rent on your equipment, and in a default, the bargaining position of the lessor can be stronger than that of the lender. Inevitably, there will be segments of the asset finance industry which will always operate under this logic.

To me leasing as a product line does not have a right to exist but there will continue to be times when it will be the right tool for the job. The asset finance industry has always responded to its customers' needs and I am sure that it will continue to do so. If a lease proves to be the best tool to use, it will be used, albeit I expect it to become a more advanced piece of equipment.

And the Winner is



Reading all the entries was hugely involving and thought provoking, each entry had its own take of the subject, and each view was based on real experience of the industry. Dr Peter Hahn of the Faculty of Finance at Cass Business School explored if overused words like leasing gain negative connotations; George Lynn applied Cartesian dualism to the question, but in the end it came down to the assets and developing asset-focussed strategies that work for customers in specialised sectors; Chris Boobyer pointed to a lack of proper promotion of the industry in earlier years, but that, recession or no recession, there is no other tailored funding solution available for the purchase of new and used equipment.

Dr Bill Dost asked what are we doing to continually prove we should exist? Leasing was a no-hassle way of acquiring equipment by businesses that could not purchase it outright; City Slicker thought the answer was obvious, there will always be a need for instalment credit. George Ashworth was drawn into the debate, and saw the answer grounded deeply in the historic roots of asset finance, the facilitation of acquiring capital assets, and for the future, serving clients would remain at the core of the industry's existence.

Allan Foad saw leasing as a tool in

the asset financier's toolbox that could be useful on certain occasions, especially in the hands of creative people. Sean Toms saw it as an additional unsecured route to acquiring the benefits of an asset, and gave a dozen ways its use could be boosted. Artti Aurasmaa suggested looking to the IT industry for leasing to draw inspiration from, citing Google's and Apple's internal and external collaborations in the creation of what he calls "ecosystems" working with long term time horizons, within which constant innovation is the norm – and in which one follows a "dream".

Lindsay Town's entry was carefully perused, after all it was his comments at Leasing World's Expo that started the ball rolling. He saw the leasing industry as an endangered species, and if we don't know why we do it, we don't know what defines us and what makes us relevant, so we can't define a future for ourselves, we just take what comes. Fundamentally, leasing exists to help businesses acquire or sell capital goods, but that on its own is not enough to define a clear future for leasing, or as Artti put it, it needs a "dream".

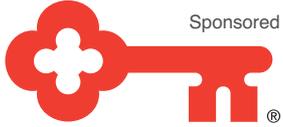
That word of Artti's, "dream", catches the imagination, it is a dream that is capable of driving us beyond just the daily execution of our craft, however skillfully or efficiently we deliver results. There was one big idea

that had the magic ingredients of "a dream" which we could all follow and if we even got halfway there, it would be significantly transformative – and that was the notion of The Lease Society, as championed by Dutch-born MEP Judith Merkies. As an industry we are already on that road, at the start of that journey, it is a journey that would make a difference to the sustainability of our planet, and to the way people live - and it would mean a huge amount more of leasing, in an astonishing number of new ways.

But The Lease Society was not submitted as an entry, we picked it up at Leaseurope and we wrote about it. So our winner has to be the entrant who focussed on our need for "the Big Idea", "the Dream", and that person, ladies and gentlemen, was Artti Aurasmaa, from Finland. A bottle of champagne is on its way, Cheers.



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