# 2006 Industry Future Council Report

AMERICAN LEASE INSURANCE

*The best insurance program you'll never run.*

Equipment Leasing & Finance Foundation

*Your Eye On The Future*

Equipment Leasing &
Finance Foundation
*Your Eye On The Future*

## About The Equipment Leasing and Finance Foundation

The Equipment Leasing and Finance Foundation is a 501c3 non-profit organization that provides vision for the equipment leasing and finance industry through future-focused information and research. Primarily funded through donations, the Foundation is the only organization dedicated to future-oriented, in-depth, independent research for the leasing industry. Foundation products include the Industry Future Council Report, the State of the Industry Report, and the *Journal of Equipment Lease Financing* and numerous research reports. Established in 1989, Founders include leasing industry member Paul S. Gass, the Equipment Leasing Association of America, and others. Visit the Foundation online at http://www.LeaseFoundation.org.

- The Foundation is the source of future-focused research and information.
- The Foundation is donor-supported, a 501(c)3 organization,
- Donors receive copies of Foundation studies and reports, free and early released.
  Non-donor will purchase all Foundation studies and reports.

## Contact Information:

Lisa A. Levine, CAE
Executive Director
4301 N. Fairfax Drive, Suite 550
Arlington, VA 22203
703-527-8655
llevine@elamail.com
www.LeaseFoundation.org

*The Equipment Leasing and Finance Foundation*

*wishes to express appreciation to the following company*

*for providing the sponsorship to support development of the*

*2006 Industry Future Council Report:*

AMERICAN
LEASE
INSURANCE

# 2006 Industry Future Council Report

AMERICAN LEASE INSURANCE

*The best insurance program you'll never run.*

Equipment Leasing & Finance Foundation

*Your Eye On The Future*

# 2006 Industry Future Council Report

TABLE OF CONTENTS

*Page*

# Learning to Take Advantage of Change

*"We probably should have brought in outsiders earlier so we weren't breathing our own air."*

–A leader at a failed think-tank

## *Overview*

In previous years, the objective of the Industry Future Council (IFC) has been to focus on the future by identifying issues that will impact the equipment leasing and finance industry over the next several years. This year, the Board of Trustees of the Equipment Leasing & Finance Foundation challenged the IFC to focus on the future in a new way—by creating a set of questions that industry participants can address within their own businesses to help them prepare for the next one to three years.

Thus, the tasks of the IFC this year were first to identify trends, issues and possible future events that could affect our industry and its participants, and then to develop a template of questions that each company can use to challenge itself to broaden its own ideas about—and plans for the future. In the past, the IFC has tried to supply answers about the future; this year, it is supplying the questions to help your firm find its own answers.

To prepare for the discussion, IFC members were asked to bring and share a "fear," a "hope," and a "vision." Fears were described as those threats, issues or concerns that, should they occur, would create an adverse environment for growth and profitability.

"Hopes" would create an environment more conducive to success for Council members' firms as well as the broader industry. They were further asked to share their thoughts on how realization of their hope might improve their ability to compete, expand the entire market, or upgrade their relative positioning. Members were also asked to explain what changes would have to occur for the hope to become reality.

Thirdly and finally, IFC members were asked to bring a "vision", or prediction, about the business landscape and its characteristics in five to eight years from now. Consequently, this report is divided into sections that list, discuss and pose questions regarding the fears, hopes and visions surfaced by IFC members.

## *Learning to Use Positive Turbulence*

Despite the inevitability of it in our world, change is a phenomenon that many social scientists believe human beings are designed to resist. Stanley Gryskiewicz, Ph.D., is one such scientist. An organizational psychologist and the author of *Positive Turbulence: Developing Climates for Creativity, Innovation and Renewal*, Gryskiewicz opened the 2006 IFC conference with a presentation on constructive ways to view change, or turbulence, and use it to stimulate innovation within an organization. "Positive turbulence," a phrase Gryskiewicz has coined, occurs when an individual or a business not only acknowledges outside change, but actively searches for trends and developments that can be brought inside and deployed in a manner that improves or creates a process or product.

The relationship between Bell Laboratories and marine biologist Roger Payne illustrates the benefits of positive turbulence. Bell invited Payne, an expert on whale communications, to speak to its scientists about his latest discovery: that, for reasons unknown, whales change their language patterns from year to year. Apparently, whales do not wait to be forced into change by an external force; instead, they initiate the change themselves, and all members of the whale group adopt the new language each year.

Discussions with Payne led to a breakthrough at Bell Laboratories when scientists realized they could use what they'd learned about whales to improve communications between submarines. Had the research arm of this enormous telecommunications company chosen instead to ignore events outside itself and its industry, it might never have found a way to better one of its major products.

Leaders in the equipment leasing and financing industry can also benefit, Gryskiewicz suggested, when they stop resisting change and redirect their efforts toward using it to their advantage. "You must look outside your world to see changes that will influence your industry in the next ten years," said Gryskiewicz. "Where are you going, and how will you get there? If you want to be on the edge of tomorrow, you must bring in new insights about tomorrow—and integrate new impulses into your routine."

Methods of uncovering trends and developments run from the obvious, such as regular perusal of news and business publications, to the obscure, which could include a visit to an art exhibit or a conversation with a passer-by. While gazing at lacquered furniture in a store window, a GM engineer thought of a new way to adhere color to the metal used to make automobiles. His epiphany sprang from his exposure to an item that appeared completely irrelevant to his industry. But the engineer's attention to it expanded the horizons of the automobile manufacturing industry, where, until then, cars were available "in any color you like, as long as it's black."

The key to making change work for our industry, rather than against it, then, is to accept that change is constant, and to open ourselves to it by searching for new thoughts and processes that can be used to bring innovation to the leasing and financing of equipment.

"The way forward is to look around, not ahead," said. Gryskiewicz. To emphasize the breadth of change occurring now, he shared a partial list of trends that include these:

**TRENDS AT HOME:**

- The second-most common foreign language spoken in American homes is Chinese.
- One-person households are now more numerous than those with married couples and children; living alone by choice is now commonplace.
- Forty percent of U.S. workers are more concerned about caring for an elderly relative than for a child.
- Twenty-five percent of U.S. households are engaged in care-giving. The typical care-giver is a 46-year-old woman, married and working, who spends 18 hours per week caring for her elderly mother.
- Caring for elderly family members costs $11 billion annually in so-called "lost" production.

**TRENDS AT WORK:**

- The mobile phone market grew 25 percent worldwide last year. (Nokia, a leading manufacturer of mobile phones, began life as a paper company)
- South Korea leads percentage of Broadband access, with 57.4 percent of households using Broadband to connect to the Internet.
- Lenovo, a Chinese firm, recently bought IBM's personal computer business
- Pearl River, also Chinese, recently announced a joint venture in Asia with Steinway Piano Company.
- Chinese manufacturer Haier has begun making refrigerators in Greenville, S.C.
- Toyota will soon overtake General Motors as the largest car maker in the U.S.
- Pacific Rim countries are expected to account for more than half of the world's combined Gross National Product by 2040.
- In an effort to retain top-notch employees, certain North Carolina-based technology firms are offering employees both Montessori schooling and elder care on-site for their family members.

**TRENDS IN EDUCATION:**

- Australia exports education into Asia by teaching courses in English at universities in China.
- Indian firms tutor 20,000 American students remotely for $20 per hour.
- Online learning and degree programs continue to proliferate.

The Council discussed briefly how the trends above might have an impact on our industry. To exploit trends and other new information gathered, Gryskiewicz suggested reframing the information by viewing it from a different perspective. Just as an inventor might find a new use for a coat hanger by viewing it from various angles, an equipment lessor or financier might discover a new business opportunity derived from recently enacted legislation. "Creativity," said Gryskiewicz, "is an import/export game."

Research done at the University of Chicago has shown that managers with numerous contacts outside their work groups produce the most creative ideas, and that people who live where multiple societies and cultures intersect are particularly innovative because they are exposed to such diversity.

To broaden exposure to the world outside our industry, Gryskiewizc offered these ideas:

1) Join an affinity group or networking organization outside of your company

2) Add to your annual travel schedule one conference that appears to have some tangential relevance to equipment leasing and financing

3) Read "fringe publications," (see Resources) or those outside the mainstream, to find fresh ideas and

perspectives you may be able to adapt inside your company

4) Take field trips to discover life outside your company, the Internet, and television

5) Invite professionals from other industries to speak at your meetings on a variety of work-related topics

6) Interview and hire employees who differ from you in culture, race, place of origin, and generation

7) Invite workers from other areas inside your firm to attend meetings of various committees and teams. Ask for their input and be open to their ideas

8) Give yourself permission to change your mind, form new impressions and occasionally contradict yourself if it means trying a new way

9) Learn how to exploit the periphery, or its issues will eventually exploit you

To give industry context to the trends noted by Gryskiewicz, and for calibration purposes, Foundation Chairman and Council Facilitator Joseph C. Lane listed a number of past events that emphasized how quickly change can occur, and how quickly paradigms shift as a result. Among these events:

- In 1991, U.S. Congress held hearings that generated from the federal government a $1-billion investment in the Internet
- In 1992, Snowcrash was a cutting-edge Internet engine that answered all questions as a librarian, in plain English. A variation on this concept can be seen today in a company named Google
- In 1995, ethernet technology was developed to send data at high speeds
- In 1997, the U.S. Energy Department collaborated with a private company to develop fuel-cell engines for cars. The trend is expected build similarly to the use of cell phones
- In 1998, the Federal Communications Commission netted $578 million at an auction for the first licenses for new wireless technology, much of it composed of cell phones
- In 1999, digital file compression was first seen as a threat to the music industry

## *Fears*

What follows is a list of scenarios that Council members believe, based on past and current events, could become negative realities for the industry.

• Continuation of a Poor Industry Image

If equipment leasing and finance companies do nothing to correct the misconceptions of lawmakers and the public as to the policies and practices of leasing, what events could occur to further damage our industry? IFC members agreed that in the absence of a broader education effort, laws could be enacted that would further regulate and restrict the industry. As well, businesses that lease currently could become discouraged from doing further leasing business.

To prevent this scenario becoming a reality, IFC members devised these questions for readers of this report to ask themselves and their companies:

➢ What is our company doing to improve the image of leasing?
➢ Are our practices, procedures and documentation sound and ethical?
➢ How are we educating current and potential customers as to the facts about leasing?
➢ Are we corresponding with our local and state legislative representatives about issues affecting our firm? Or do we leave it all to our association?
➢ How are we correcting misinformation that currently surrounds the industry?
➢ Are our actions as a company transparent to our customers and auditors?
➢ What steps can our company take to make its actions more transparent?

• Continued Maturation of the Industry

Without the development of new markets and financial products, the leasing and finance industry will cease to grow. In such a scenario, new business would be obtained only by taking it away from competitors. And, because the customer would be in control, adequate profitability would be difficult if not impossible to achieve. The industry would slowly choke and die.

➢ Where is our company looking for new markets?
➢ Are we thinking globally, or are we limited to the U.S. market?
➢ Are our customers expanding abroad, and are we following them?
➢ With whom are we speaking to learn about trends and conditions outside the industry?
➢ What materials are we reading or viewing to learn how other businesses and individuals cope with change?
➢ Are our research and development procedures carved in stone, or do we frequently consider new approaches that might broaden our outreach?
➢ Are our customers asking for new products?

• Continued Consolidation Within the Industry

Unless the industry refreshes itself in the form of new companies as well as new and younger individuals, this business will not only shrink, it will lose creativity and thus its ability to compete with others outside the industry who may be able to offer similar products.

- Must consolidation always impose uniformity?
- Will continued consolidation squelch the industry's creativity?
- Or can our firm, if merged with another company, maintain its own identity in ways that have proved successful?
- In what ways could consolidation produce or enhance creativity?
- In what situations should creativity be valued over consistency?
- Does our company's consolidated culture encourage creative thinking and reward smart ideas, or is creativity viewed as a frivolous waste of time?

• Divergence of Markets

"We used to be 70 percent tax [leases] and 30 percent loans and finance," said one IFC member. "Today, we're 65 percent loans. We still do a lot of lease-related business, but what if we can't do an operating lease anymore? If our parent company looks down and sees X amount of our revenues gone, they may decide we're no longer a significant part of the bank." Lease accounting rules will probably change within the next five years.

- How does our company distinguish itself from other firms that provide loans?
- If our firm is making an increasing number of loans, do our sales representatives also take the time to explain leasing and its potential benefits?
- Does our company market "total solutions" or leases and perhaps loans?
- If so, how do we distinguish our company from others that also offer total solutions?
- How does our firm go about creating and adding new products?
- When was the last time we improved an existing product or service?
- Can our firm adjust its product offerings if the difference between a lease and a loan continues to blur?

• Loss of the 'Leasing' Identity: Normal Process or Crisis?

Unless more young men and women are recruited into the industry and taught the skills and knowledge that distinguish equipment lessors and financiers, the uniqueness of this profession may become extinct.

At the same time, stiffening federal regulation passed in response to the events of September 11, 2001, has made it increasingly difficult for foreign students, after completing their studies in the U.S., to stay here to apply to their learning. Thus, we educate bright foreign students, and then force them to apply their education to jobs outside the U.S. Meanwhile, U.S. students can still stay abroad in many nations long enough to earn advanced degrees and matriculate into foreign society. The result could be a brain drain that will compromise not only leasing, but many American fields of expertise.

- What are we doing to attract young people to our company and the industry?
- Is attracting young people to our company important to us?
- Where are we searching for new blood, and what is the extent of our success?
- Are we limiting our search to the leasing industry, or are we also considering outsiders who could be taught the business?
- What are several new venues in which our firm could recruit young people who could be groomed for industry leadership?
- Where are the knowledge gaps in our company?
- What are our plan to close those gaps?

• Continued Commoditization of the Leasing Product

If a leasing product differs only slightly from loan-like products, the market will perceive less differentiation. Captives, independents and banks will continue to compete for the same transactions, but with differing priorities. IFC members say massive margin compression is already occurring, and pricing departments are trying now to determine how to raise margin, putting upward pressure on pricing in a market that may not tolerate increased price.

For context, the 2005 *State of the Industry Report* shows that:

• 52% of member business took the form of loans or loan-like products (vendor-financed, indirect, originated by dealer or vendor, and ELA members bought the paper and discounted the payments)

• 28% was direct-finance leases

• 10% was traditional fair-market-value operating leases

• 1% was synthetic leases

• The remainder was municipal leases and investments in leveraged leases

➢ How will the leasing industry grow if the lion's share of manufacturers move offshore?
➢ Is our company willing and prepared to follow its customers to the new markets our customers enter?
➢ Are there already markets we could enter in which our customers are already doing business?
➢ Do we know how these customers are filling their leasing needs in those markets?
➢ How much of our current business could move abroad in the next five years?
➢ Is our sales team compensated appropriately for selling leases as well as loans?

• Loss of Ability to Compete Globally

Increased regulatory burdens could build walls around the U.S. that would make it harder for U.S. companies to do business abroad, but allow foreign firms to continue to do business here. In such a situation, global competitors could easily expand into U.S. leasing markets while enjoying protection of their home markets from U.S. firms.

➢ In what ways does our company defend itself and our industry against political trends that could result in increased regulation of equipment leasing and financing?
➢ Does our firm already do business outside the United States, or have we ever seriously considered it?
➢ If we don't do business internationally, what are our reasons for remaining state-side? Is our infrastructure built around doing business in the U.S. only?

• Decline of Liquidity in the Market

Concerns over the possibility of another terrorist attack, natural disaster, bursting of the housing bubble, corporate scandals, or other unpredictable-but-cataclysmic events focused on market liquidity and funding availability.

➢ Do we have secondary and tertiary funding sources in place in the event of a disruption in the capital markets?
➢ Do we allow several funding sources to share in a transaction, i.e., fund a portion of the transaction instead of the whole deal?
➢ What negotiating tools might our company use to obtain new capital if all of our existing funding sources become restricted?
➢ Where would we look, other than to banks and traditional sources, to find new capital?
➢ What would that new capital cost, and can we run a profitable business?

• Retention of Customer Loyalty

If members of our industry use pricing to attract new customers, it stands to reason that customers will leave as soon as a competitor lowers prices further. If we instead attract and hope to maintain customers with value-added services, relationships and consistent quality, how do we keep our customers when economic changes force them to consider alternative methods of equipment acquisition? Questions to contemplate:

➢ How do we retain customers now?
➢ Does our retention rate hinge more on relationships and excellent service, or on pricing or special contract features?
➢ What are current business retention figures, and have these increased or decreased in the last 12 months?
➢ Do we have an alternate plan for maintaining high retention rates if economic changes produce adverse incentives?

• Continuation and Growth of a Destructive Pricing Cycle

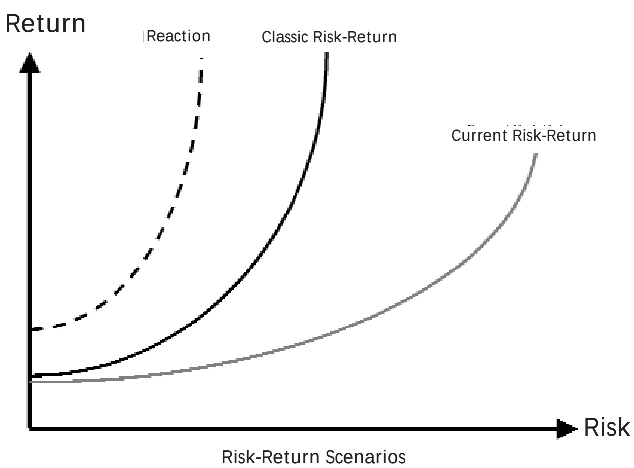
A growing number of equipment leasing and finance companies are not pricing appropriately for the risks involved. Said one IFC member, "We can't all grow, but we all think we can, and we compete on price instead of on differentiation."

Companies new to leasing may try to gain market share by operating further out on the risk/reward curve. Certain practices engaged in by a new player – or an experienced one, for that matter – could trigger additional legislation or regulatory control of the industry, and fuel discussions between states and the federal government about regulation, and whether even greater controls should be imposed. Readers of this report should be asking themselves:

➢ How are we pricing our products and services; are we adequately pricing for risk?
➢ Does our current portfolio quality affect our overall perception of risk?
➢ On a risk-adjusted basis, are our returns adequate to attract new capital?
➢ What system of checks and balances do we use to ensure that we always conduct business according to current state and federal laws?
➢ How well do we anticipate compliance and regulation effects on our business?

The Council participants focused on the historical risk/reward curve, agreeing on a well-understood shape of that curve. The general perception was that the shape of the risk/reward curve today is flatter, and skewed to the right, of the historical curve, indicating less differentiation in pricing, and greater availability of funding on the "riskier" side of the axis. Such conditions have existed in the past in various markets or industries, and the inevitable trend is a corrective move that typically brings the risk/reward curve back toward the lower-risk, higher-reward portion of the quadrant (see illustration following). Council members have experienced this phenomenon before in oil and gas drilling (the early '80s), real estate (the early '90s), telecom (the late '90s), commercial aircraft, boxcars, trailers and tractors, on a cyclical basis.

If the curve corrects, the general consensus was that we will see an increase in money cost, a flight to quality, and the consequent elimination of the ability to do business at the riskier, or smaller, end of the market.




*The above graphic is intended to show general relativity and is not intended to be to scale or in any way quantitative.*

Additionally, the Council expressed concern over the conflicting pressures on balance sheets. Given current conditions, losses are at a historical low, and general portfolio quality is generally at a high. Consequently, some have seen pressure to reduce the level of reserves to reduce current income, while historical lessons would suggest caution and prudence about taking such actions.

- ➢ Are we adequately pricing risk in our transactions?
- ➢ Have margin pressures forced us into the portion of the market that will be far more difficult to continue in if the risk/reward curve shifts?
- ➢ Have we adequately reserved for credit losses if underlying market conditions change adversely?
- ➢ How are we balancing the pressure for earnings with appropriate prudence regarding risk of loss?
- ➢ Have we established a pattern of expectations that will be difficult or impossible to meet under different conditions? What will be the impact of such change on our business, and our access to equity?

## *Hopes*

If professionals in our industry could build an optimistic view of the future, how would it look? What traits would indicate strength and durability? How might companies conduct themselves, and how would outside forces, such as regulators and customers, view us? To examine these issues, IFC members discussed their hopes for the future.

*We hope…*

• That Leasing Will Be Viewed as Part of the Solution, rather than as part of the problem. We hope we'll again be seen as adding true value to the supply chain and capital formation. If our industry could reinvent itself so that its members are again appreciated for their advisory abilities and our innovation, we will have reversed a negative image and again be viewed as valuable, creative resources within the financial services industry.

- ➢ What can our company do to project a more positive image of itself and our industry?
- ➢ Have we considered advertising or writing in non-industry publications that are new to us?
- ➢ Have we offered our experts to local radio, television and print resources?
- ➢ How often do we issue press releases, and to whom?
- ➢ Do we have a method for updating and expanding our list of media resources?
- ➢ If we were to expand our budget for advertising and external communications, which current expenditures could be reasonably decreased or eliminated?

• That Companies Will Work to Attract and Grow an Entrepreneurial Spirit, which was once the core of the industry's identity. IFC members believe equipment leasing and finance companies today are finding it more difficult to encourage innovation versus stability and continuity. At the same time, Council members acknowledge that leasing is a much larger market segment now than it was 20 years ago, and that today's customers are more sophisticated, experienced and educated.

- ➢ Do we want to be seen as a financial innovator:
- ➢ How does our company promote itself as a financial innovator?
- ➢ How often do we devise creative solutions for customers instead of relying on products that are more or less standard?
- ➢ Do we reward our employees for being creative?

• That U.S.-based Leasing Companies Adopt a Global View

If the rate of growth and expansion is limited in the U.S. market, industry players may be tempted or forced to pursue markets outside the U.S. While some areas of the world already enjoy a mature, robust leasing market, there remain developing opportunities elsewhere. Local customs, business practices, laws governing ownership and asset control, tax and accounting requirements – all will require careful review and understanding. As customers increasingly find themselves involved in markets outside the U.S., it is inevitable that they will want their lessors and financiers to "move" with them. Lessors and funders will be challenged to adapt their current practices to finding a way to be part of the "global economy." There are several options identified for reaching into new markets outside the borders of the U.S.:

• Partner with an existing local company, which may or may not be a leasing firm, and offer its expertise and a commitment to increase the partner's volume in exchange for use of the partner's infrastructure

•Follow its parent company and use the parent's infrastructure and customer base and calibration

•Enter alone, and establish a presence, infrastructure and customer base from scratch

- ➢ What particular expertise and service could we bring to a foreign market?
- ➢ Which new market(s) would offer the most opportunity for our company's expansion, and why?
- ➢ Which method of entry would be most effective for our company to become part of the global market?
- ➢ What contacts do we already have in place that we could tap to learn more about this market, its requirements and needs?
- ➢ Where could we locate additional sources to contact and begin forming relationships?
- ➢ How do we best work with our customers as we expand our reach?

• That Lessors and Financiers Will Bring Value to Adjacent Markets

IFC members say major opportunities still lie with each company's customer base. To uncover these opportunities, companies need to explore customer needs that may or may not be related to leasing, but might be satisfied by the leasing or finance company. Examples included lessors of agricultural equipment now offering credit card and crop futures financing, building on their knowledge of the underlying customer, and satisfying a broader range of the customers' financial needs. How much do we know about the current and future needs of our customers outside the equipment leasing and finance arena?

- ➢ What additional customer needs could we fill now, without adjusting our business model?
- ➢ What additional customer needs could we fill if we modified our business model slightly?
- ➢ Is there a niche that, if we offer to serve, would be attractive to enough of our customers to warrant its development?

• For Expanded Access to Capital and Rational Market Pricing

Current market conditions are characterized by low interest rates and high availability of capital, both of which lean the traditional "lease versus buy" decision toward "buy." The present environment also contains the fallout from traumatization of the airline industry and the disappearance of cross-border leveraged-lease transactions, for which a new volume substitute has not yet been found.

- ➢ What are the scenarios that could change conditions in the marketplace for our customers?
- ➢ What indications have our customers provided that suggest conditions are already beginning to turn?
- ➢ What are we doing to prepare for a new cycle in which credits deteriorate, interest rates rise and capital becomes less available?
- ➢ Do we have new marketing strategies we can implement if the U.S. economy shifts quickly?
- ➢ Have we selected new markets we can move into when this shift occurs?
- ➢ Should we begin implementing these marketing strategies and expansion plans now?

• For a Recommitment to Training and Education

Few industry participants list as a priority the education of professionals who are young or new to our industry. As a result, a wave of retirements in the next three to seven years will create a very visible demographic shift, where replacement resources may not balance the exiting resources.

- ➢ What is our company doing to educate new employees in the skills and knowledge of the equipment leasing and finance industry?
- ➢ Are we using training and education as tools for grooming new company leaders?
- ➢ Are we investing in new tools that could deepen the education we're providing?
- ➢ What are we doing to convince new employees that our industry is worthy of their continuing commitment?

• For a Framework To Challenge Ourselves To Prepare for New Competition from competitors who market to our customers and sell, among other things, leasing products.

- ➢ Who is our competition now: hedge funds, new players, traditional players, or a mix of these?
- ➢ What can we deduce about future changes in our competition, based on information we already possess? From fresh information we collect?
- ➢ What are our resources for competing with non-traditional players? What will be our value proposition in the face of these changes?
- ➢ How will we measure our success?

• That ELA Membership Would Mean More, because members would more visibly embrace a code of fair business practices. An ELA task force has been working to revise the Association's Code of Fair Business Practices, with the following objectives:

1) To revise the code of fair business practices and the process by which it is enforced

2) To develop a statement of customer philosophy for the industry that all ELA members can use

3) To develop additional, highly specific principles of fair practice. Mostly focusing on end-of-lease provisions and return of equipment, these principles may cover a range of issues, from quoting the deal to transaction completion

- ➢ When did our company last examine customer satisfaction?
- ➢ When our customers complain, what is the nature of their complaints?
- ➢ How can we change our practices to satisfy these complaints?
- ➢ What language could we change, add, or subtract from our contracts that would make it easier for our customers to do business with us?
- ➢ Overall, are our practices customer-friendly and fair?
- ➢ Do our contracts and/or practices contain items that our customers could view as unpleasant surprises?
- ➢ If we had to explain our practices to the public through the media, could we do so in a succinct and compelling manner?

• That Our Industry Receives a New Incentive that could be passed along to customers. Ironically, past recessions have inspired new tax incentives, and there may be other incentives that would cause businesses to revisit the possibility of leasing or financing equipment.

- ➢ Are we doing enough as a company to lobby lawmakers for new business incentives?
- ➢ What might some of these incentives be, and how might they work?
- ➢ Have we discussed our ideas with ELA?

## *Visions*

The Foundation for Equipment Leasing and Finance strives to be *your eye on the future*. IFC members shared their observations and expectations for the coming several years, as listed below:

**CUSTOMER TRENDS:**

• Multinational Operations

Even small leasing companies are facing increasing requests for borderless transactions.

- ➢ Will global expansion affect the way we do business in the U.S. market?
- ➢ How will we fund our own business as it expands beyond the U.S.?

• Conducting Business with the Cards Face-Up

Lessees continue to become more experienced, more sophisticated, and more demanding in a market where their alternatives are many. Consequently, the "balance of power" in lease negotiations will likely be different in the future, and lessees, as a group, will expect more concessionary terms, and more lessee-friendly provisions. Lessees who have experienced lease-end practices which were, or were perceived to be abusive, will either steer away from leasing all together, or will demand up-front documentation and commitment to more "favorable" and transparent lease-end process. This has already become evident in areas such as lease-end notification by lessors (some of whom have voluntarily adopted such practices), and return condition flexibility.

• A Growing Need for Lease/Finance Specialists; A Shrinking Need for Generalists. Customers want to talk with experts who can handle their specific situation. They will seek representatives in a variety of fields who understand their business and the issues they face.

• Other Customers Will Demand A Single Point of Contact
They wish to have a clearly identified "quarterback" who will coordinate the many disciplines within a company and focus communication with the lessee. Many companies have multiple specialists behind the point of contact, but customers increasingly will not want to pay the costs of dealing with multiple contacts. Deals will be driven by the need to help customers lower their cost of doing business.

• Customers Will Want Our Products Integrated with Their Systems and Their Technology, instead of being required to adapt their processes and systems to those of multiple lessors. Growing businesses will invest in sophisticated information systems that can accommodate nearly any kind of plug-in. As a result, customers will demand that services and processes be manageable and monitored from their platforms.

• A Desire for Intimacy Without Face Time
Contemporary communication through online methods means that "customer intimacy" may not be as dependent on face-to-face meetings and dialogue as it once was. Customers will be able to dictate the amount of *their* time made available for prospecting and negotiation, as more providers of financing adapt to the enhanced communication capabilities of technology.

• A Call for Clear Value Propositions
As captives, independents and banks continue to pursue common customers, while promoting slightly different value propositions (brand, transactional expedience, relationship), they will increasingly be challenged to match the offerings of "indirect" competitors as well as direct competitors with similar orientations and resources. While each will be motivated to emphasize their differentiated strength, providers of financing will face competition from multiple directions, and lessees will continue to compare and contrast similar-but-different solutions. Consequently, competitive "losses" will require careful examination, as the reasons expand beyond price, terms and responsiveness from similarly-situated competitors.

• A Desire for Simplicity
Customers who use multiple leasing and finance sources will want to streamline their processes as much as possible, and will increasingly want to use their document and their process. Those lessors who can adapt may be better positioned than those who have standardized or rigid offerings.

**Product and Service Trends:**

• Bundling Vs. Unbundling
While some customers may continue to seek comprehensive, or bundled solutions, others will insist on the "a la carte" approach to their financing needs. To the extent bundling creates a competitive advantage for some providers of lease financing, they may be challenged to provide pricing or transparency on the components. Conversely, lessors who focus on individualized solutions may be challenged to offer lower all-in pricing by combining equipment with services and other related solution components.

• The Most Profitable and Most Differentiated Products and Services in the marketplace will have the following traits:

- Clear and straightforward terms; the simpler, the better
- Quick turnaround
- Reduced risk of ownership
- Ability to transact in multiple currencies
- Ability to transact in multiple jurisdictions
- Ability to transact in multiple languages
- Asset management capabilities (In the technology segment, this is a go-to-market requirement)
- Customization (It may be possible to start with one service and move on to others)
- Flexibility
- Less dependence on accounting advantages
- Risk of reduced tax benefits

**Where the Business Will Originate:**

The Council concluded its deliberations by identifying asset classes and markets in which growth is most likely to continue. These include:

- Technology
- Construction
- Power Generation/Transmission
- Transportation
- Medical/Healthcare
- Office Equipment

**Characteristics of the Capital Markets:**

- Rates
  - The Federal Reserve projects a moderate increase, followed by stability
  - Deficits suggest upward pressure, caused by tax-revenue shortfall
  - Credit Quality
  - Event Avoidance
  - Current flattening curve is abnormal
  - New supply of capital flowing from hedge funds, Real Estate Investment Trusts (REITs) and other non-industry sources

- Customer Interaction
  - Electronic
  - Self-Service
  - High-Speed
  - Single Point Person
  - Global Reach with Local Expertise

- Competition
  - Continuing Consolidation
  - New Players, such as Hedge Funds, REITs and Foreign Companies
  - State of the Capital Markets, which will either fuel or impede growth
  - Risk Tolerance and Management Skills will play an increasing role in a firm's ability to attract new business and use risk-based pricing

- Innovations

The Council discussed trends and innovations that will characterize the future, including:

  - Improvement of Back Office Processes (automation systems increasing paperless-ness)
  - Use of Predictive Modeling (to learn how customers will deal with new processes)
  - Consultative Selling (uncovering customer problems for which your company may have a solution)
  - Linked Systems
  - New Types of Bundled Offers (that will be hard to classify as anything other than rentals; may take the form of dollars per use or amount of use, rather than per equipment cost)

- Resources
  - Human (younger people, greater diversity (including diversity of languages and cultural experiences), new hires who are creative and technologically savvy, accomplished project managers, back-office technology managers)

## *Concluding Thoughts:*

The era in which the equipment leasing and finance industry could afford to practice business as usual has ended. Firms unwilling to look for the writing on the wall, which is found more often in sources outside our industry than inside it, may progress for a short time. But eventually, they will founder as better-informed competitors act on new information they have discovered, and use it to move ahead. Excuses for remaining unchanged will no longer find acceptance among successful equipment lessors and financiers. A new era is upon us, and its message is, "Change Now." The IFC hopes readers and their firms will use the questions posed within this report to embark on crucial changes of their own.

## 2006 IFC Report Resources

Equipment Leasing & Foundation Studies:
- State of the Industry Report, 2005 (www.Leasefoundation.org)

Credible Fringe Publications:
- BlackBook Magazine (www.blackbookmag.com)
- Business 2.0 Magazine (www.money.cnn.com/magazines/business/2)
- Green (www.
- HOW
- Nordicum Magazine (www.nordicum.com)
- Red Herring: The Business of Technology (www.redherring.com)
- Seed Magazine
- Strait Times
- Wired Magazine

## Meeting Mechanics

The 19 members of the 2006 Industry Future Council met for two days on January 24-25. An academic setting was considered most conducive for undertaking the work at hand, and the location chosen was the University of South Florida in Tampa.

The conference opened with a two-hour presentation by Stanley Gryskiewicz, and continued with a discussion of fears or threats to the industry as perceived by IFC members.

On day two, Council members continued their discussion of potential negative scenarios, and then countered these scenarios with their hopes, or possible positive scenarios, for the industry future.

Members then changed gears to formulate their vision for the industry, based on indicators emanating from customers, market segments, industry players, regulators, and the economy. Throughout the conference, members shared their experiences and observations and then posed questions that report readers can ask of themselves and their companies in an effort to prepare for the future.

Equipment Leasing & Finance Foundation
*Your Eye On The Future*

AMERICAN LEASE INSURANCE

# 2006 INDUSTRY FUTURE COUNCIL MEMBERS

MR. CLAY M. BIDDINGER
President and Chief Executive Officer
GE TECHNOLOGY FINANCE
GE CAPITAL SOLUTIONS
3031 N. Rockypoint Drive West
Suite 400
Tampa, FL. 33607
Ph: 813-313-5499
Email: clay.biddinger@ge.com

MR. WILLIAM J. BOSCO, JR.
Consultant
LEASING 101
17 Lancaster Drive
Suffern, NY 10901
Ph: (914) 522-3233
Email: wbleasing101@aol.com

MR. STEVE DINKELAKER
President
AMERICAN LEASE INSURANCE
654 Amherst Road
Sunderland, MA 01375-9420
Ph: (888) 521-6568x245
Email: steve@aliac.net

MR. DAVID D'ANTONIO
Managing Director
DIVERSITY CAPITAL LLC
800 Industrial Highway
Cinnaminson, NJ 08077-1949
Ph: (856) 303-8100
Email: ddantonio@divcapital.com

MR. MICHAEL FLEMING
President
EQUIPMENT LEASING ASSOCIATION
4301 N. Fairfax Drive
Suite 550
Arlington, VA 22203-1627
Ph: (703) 527-8655
Email: mfleming@elamail.com

MS. VALERIE HAYES JESTER
President
BRANDYWINE CAPITAL ASSOCIATES, INC.
113 East Evans Street
West Chester, PA 19380
Ph: (610) 344-2910
Email: valeriejester@brandywinecap.com

MR. JOSEPH C. LANE
Vice Chairman
BAY4 CAPITAL, LLC
141 Dans Highway
New Canaan, CT 06840
Ph: (203) 972-7139
Email: jlane@bay4.com

MR. PAUL A. LARKINS
President & CEO
KEY EQUIPMENT FINANCE
1000 S. McCaslin Blvd
Superior, CO 80027-9456
Ph: (720) 304-1204
Email: paul.a.larkins@key.com

MS. LISA A. LEVINE
Executive Director
EQUIPMENT LEASING & FINANCE FOUNDATION
4301 N. Fairfax Drive
Suite 550
Arlington, VA 22203-1627
Ph: 703-516-8363
Email: llevine@elamail.com

MR. KENNETH E. LINDHOLM
Managing Director
GE CAPITAL MARKETS GROUP
4 North Park Drive
Suite 500
Hunt Valley, MD 21030-1801
Ph: (410) 527-9301
Email: ken.lindholm@ge.com

# 2006 INDUSTRY FUTURE COUNCIL MEMBERS *continued*

MS. DEBORAH J. MONOSSON
President & CEO
BOSTON FINANCIAL & EQUITY CORPORATION
1260 Boylston Street
Boston, MA 02215-4401
Ph: (617) 267-2900
Email: debbie@bfec.com

MR. DAVID H. SMITH
Managing Director
CITICAPITAL
450 Mamaroneck Avenue
Harrison, NY 10528-2400
Ph: (914) 899-7260
Email: david.h.smith@citigroup.com

MR. FREDERICK E. WOLFERT
Vice Chairman, Commercial Finance
CIT
1211 Avenue of the Americas
21st Floor
New York, NY 10036-8701
Ph: (212) 536-1282
Email: rick.wolfert@cit.com

**SERVICE PROVIDER BC**

MR. JONATHAN L. FALES
Principal
THE ALTA GROUP
1244 Watauga Street
Kingsport, TN 37660-4528
Ph: (423) 239-2582
Email: jfales@thealtagroup.com

**MIDDLE MARKET BC - INDEPENDENT**

MR. JOHN W. HEIST, JR.
VP
CCA FINANCIAL, INC.
7275 Glen Forest Drive
Suite 100
Richmond, VA 23226-3777
Ph: (804) 285-5516
Email: heistjw@ccafinancial.com

**MIDDLE MARKET BC - BANK**

MR. JOHN M. MCQUEEN
President, CEO
WELLS FARGO EQUIPMENT FINANCE, INC.
733 Marquette Avenue
Suite 700
Minneapolis, MN 55402-2309
Ph: (612) 667-6616
Email: john.m.mcqueen@wellsfargo.com

**VENDOR PROGRAM BC**

MR. KENNETH S. PELL
Senior Director
CNH CAPITAL, INC.
233 Lake Avenue
Racine, WI 53403-1015
Ph: (262) 636-6949
Email: ken.pell@cnh.com

**SMALL TICKET BC**

MR. PAUL USZTOK
Senior Vice President/General Manager
GREATAMERICA LEASING CORPORATION
625 First Street SE
Suite 800
Cedar Rapids, IA 52403-2807
Ph: (319) 261-4102
Email: pusztok@galc.com

**LARGE TICKET BC**

MR. MICHAEL L. TAYLOR
Managing Director
WACHOVIA LEASING & EQUIPMENT FINANCE
301 S. College Street
18th Floor Nc0738
Charlotte, NC 28202-6000
Ph: (704) 374-4724
Email: michaell.taylor@wachovia.com