Equipment Leasing and Finance Foundation

The Equipment Leasing and Finance Foundation is a 501 (c) 3 non-profit organization established by the Equipment Leasing Association of America in 1989.

Strategic Objective

The Foundation develops and promotes the body of knowledge to enhance recognition and understanding of lease financing.

The Foundation's strategic objectives are:

- To maximize the role that equipment leasing plays in the world economy, and;
- To be the prime developer and disseminator of a body of knowledge of the leasing industry.

The Mission

To promote the growth and effectiveness of equipment leasing and finance through programs that:

- Identify, study, and report on critical issues affecting equipment leasing and finance, and
- Develop the body of knowledge of equipment leasing and finance for use by the equipment leasing and finance business, academic, and public policy communities.

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2001 INDUSTRY FUTURE COUNCIL REPORT

Equipment Leasing and Finance:
Continued Growth But Tougher Times

INTRODUCTION

Is the equipment leasing and finance business a good business to enter? At the end of the day that is the question that drives a *futurist oriented* report. How does the 2001 Industry Future Council (IFC) answer the question? Yes – but not for everybody!

The maturing of the industry and its marketplace is now acting as a super-driver to create winners and losers among companies at a faster pace than in recent memory. Two other drivers are working to give leverage to *market maturity* as the ultimate enforcer of the economic rules of competitive markets. Those leveraging drivers are the economy with its uncertainty and shrinkage in demand and a tight credit cycle which affects the availability and cost of capital. In short, a slowing economy and demand for equipment coupled with a tighter and smaller credit market to fund equipment financing products will create winners and losers at a fast pace.

This IFC report is about the winners. They are the ones with the future. Economies turn up and credit constriction eventually becomes credit expansion. Those are economic rules. The difficulty is in and being able to do the right things to drive through the negative cycles in a maturing industry.

The equipment leasing and finance business is a good business to be in because there will be continued growth in demand for equipment and the need for financing and service products that companies in the equipment leasing and finance business provide. However, IFC members recognize that doing business in the future will be very much different from the past. Organization leadership and management have not been major topics over the 20 years of IFC Reports – but they are critical now. Available funding has been a given for most of the history of the equipment leasing and finance business – no longer.

Companies in the equipment leasing and finance business are intermediaries. Some say that we are in an era of disintermediation. Probably so, but what does that really mean for the future? Does the IFC believe that equipment leasing and finance companies will be disintermediated out of business? Not necessarily. Intermediaries add value. The value that most intermediaries add is knowledge. If an organization cannot add value it will be *disintermediated.* But *some things* it does or the *way* it does them will be disintermediated.

The successful companies of the future will focus on the value adds and abandon or change that which will be disintermediated because it adds no value. Can every company do this? The IFC does not believe that every company can. If the primary value of intermediation is knowledge, then companies must have a knowledge management program in place and build a strategy around gathering and using

knowledge – knowledge about equipment, customers and their businesses, lease structures, market conditions, and other information can make them valuable.

One constant in 20 years of IFC Reports is the "whale – minnow" theory. When one observes demographic trends of the equipment leasing and finance business over the past few years, he sees the classic model: a few very large and diversified companies at one end of the spectrum and hundreds of small to medium-small specialists at the other.

Consider who has been *consolidated,,* either through acquisition or failure – primarily mid size companies. They were consolidated out because they no longer had the liquidity to grow or the leadership and management to devise and deploy new business strategies demanded by the market. This is particularly true in a maturing and consolidating business wherein approximately 25 companies do 75% of the business.

Finally, throughout this report the reader will recognize the increasing role played by technology. Technology will continue to create a great demand for leasing and finance that has driven growth. The Internet will change the relationship with customers and vendors in all aspects of the lease. Technology has and will be a disintermediator but also a means to add value. It will reduce costs, increase speed and accuracy, and make business more transparent. Transparency makes it all the more imperative that a company in any business be able to justify what it does and make the value it provides clear.

THE ECONOMY AS A MAJOR DRIVER

The near-term outlook for lessors is challenging and, perhaps for some, bleak. Companies in the equipment finance and leasing business face a slowing, though not yet negative, business cycle. This in turn affects the demand for leasing services through business growth and capital equipment acquisition and replacement.

On the output, or demand, side, leasing firms are experiencing a significant softening in demand as the U.S. economy has slowed dramatically from the real GDP growth rate of 5+% to near zero growth in the first quarter of 2001. Economists may debate whether the current downturn in the business cycle marks the end of the long expansion of the `90s - with a "lengthy" recession or flat period looming on the horizon, the so-called L curve, or merely a rest stop on the unquenchable demand for investment and growth in the U.S. and global economies, a U or V curve. IFC participants agree that the capital investment boom in the U.S. economy has slowed thus reducing the demand for equipment and leasing financing services. At present this is seen as less of an overall business cycle phenomenon than as a customer/industry sector event.

The key discriminating factors seem to be the role of technology in industry/sector competitiveness as opposed to the more traditional equipment replacement cycle. Thus, participants saw the business cycle as an important backdrop to aggregate demand for leasing services, but they also saw significant variation in demand across customer/industry sectors. For example, one participant noted that capital investment was down significantly in retailing – a low margin industry that is highly sensitive to

small swings in consumer behavior and in which technology plays a small role in the competitive mix. On the other hand, demand has remained relatively strong in those industries in which technology plays a central role in both the operating processes and in defining the relative competitiveness of firms.

With a number of significant companies in the industry showing signs of financial distress, IFC participants expressed concern about the potential for the industry, and for individual firms, to maintain growth in revenues and profits through these parallel troughs in the business and credit cycles. Industry revenue growth has slowed from 20% in 1998, 17% in 1999, to approximately 12% in 2000 with forecasts of approximately 8% in 2001 and beyond. In addition, several participants perceived that the industry had experienced more and bigger "train wrecks" in the past year. The reference here is to firms that had closed down operations not because of merger or acquisition or any of the other normal means of industry reconfiguration but rather because they had "crashed" under the weight of punitive market conditions or internal inefficiencies [more on this below].

As a side note on the issue of business cycles, IFC participants addressed the intriguing question of the internationalization of the equipment leasing industry. The issue of whether the industry is truly international – and what that might mean – seems to hinge on two distinctions. An industry might be considered "international" to the extent that it exists in many countries. In this regard, the growth of equipment leasing as an accepted means of capital financing is well documented with expansion in Europe, Australia, Asia and Latin America. For U.S. companies, growth into those international markets has been led by manufacturing companies' captives to assist sales and third party vendor financing companies.

U. S. firms' vendor-related financing of telecommunications and Internet-related facilities around the world suggests, that leasing as a concept and a methodology is becoming truly "global" as well as international. The number of equipment leasing and finance companies that might be considered "global" in the sense of an integrated business operation across many countries is quite small. Consequently, there may be a number of leasing firms – particularly captives and line-of-business units – that do business in many countries (and are, therefore, properly "multinationals" or "multi-domestics"); however, there are probably very few, if any, truly global leasing companies.

CAPITAL AVAILABILITY – LIQUIDITY AS A MAJOR DRIVER

On the input, or supply, side, the tightening of the credit markets has restrained availability of funding to many participants. (See Exhibit I for a schematic of the industry.) The credit squeeze of the last 8to 0 months is seen as reflecting both the lower levels of capital looking for placement during a continuing period of uncertainty as well as a decline in the competitiveness of the equipment leasing and finance industry for these funds. With an industry ROE of around13 or14% [and a range of 10 to 20%] and with increasing residual risk because of changing technology, the search for capital is likely to become more difficult as spreads [the rate difference between corporate debt and

Treasuries] increase. This will increase the overall or average cost of capital for all industry borrowers.

More significantly, the spreads between higher quality issuers and lower quality issuers typically increase dramatically in a tight credit cycle. As a result, marginal borrowers are likely to find themselves either with limited access to capital or having to pay sharply higher prices.

The capital cycle, whatever the duration of the current downswing, will have an increasing impact on the structure of the industry. The short- to medium- term outlook for leasing companies will turn on access to or possession of capital, whether by size (the top 25 leasing firms currently account for approximately 75% of the business) or by organizational status – that is, independent versus "line of business" (that is, profit center within a parent firm) versus captive.

As a consequence, the competitive gap will increase between the haves [those industry players with ready access to capital, either through a wealthy "parent" or through possession of an investment grade credit rating] and the have-nots [those having neither of the preceding routes to capital] will increase. This may well contribute to increased instability in the industry, jeopardizing the continued existence of have-nots. It will also contribute to the continuing consolidation of the industry [discussed below] as the haves continue to growth both internally and through acquisition.

IFC participants see the issue of access to credit as more than just the pressures of the current cycle. As one discussant put it, "The current state of the industry is so different from prior cycles that the results will be fundamentally different than before – there is no turning back."

The perception was that credit access issues extended beyond the workings of the cycle to a more fundamental shift in the risk-reward calculations of traditional funding sources. More disciplined, performance-oriented investors and lenders are seen as becoming increasingly discriminative among leasing firms in their placements. These changes are seen as relatively permanent rather than transitory and likely to hold despite the current decline of interest rates, anticipated favorable tax legislation, and the potential release of vast amounts of investment capital by the over-50 segment of the population.

In summary, while participants see many opportunities still available, they believe that the current dynamics of both the business and the capital cycles are presenting major and unusual challenges to the industry.

INDUSTRY PLAYERS AND THE MARKETPLACE

Within the context of the above economic and capital markets drivers, the industry itself continues to develop and evolve. Three main themes in this continuing evolution of the industry recurred throughout the survey responses and the IFC discussion. These are maturity, discipline, and transparency.

Perhaps overnight and perhaps without consciously noticing it, the equipment leasing industry has evolved dramatically from an entrepreneurial, rebel, anti-establishment alternative to traditional capital budgeting and asset management financing to a well-established member of the mainstream.

In the `70s, the industry was capable of providing the "value-add" of transferring tax benefits, and, in the `80s and `90s, through securitization, the industry provided the "value-add" of an additional low cost capital source. Today, the tax benefits have been reduced through changes in the tax codes and customer profits and are less integral to customer decision-making.

Also, leasing, by virtue of the success of the industry, has become a mainstream or conventional source of capital rather than an alternative or outsider approach. To remain competitive, the industry – and individual firms – must redefine or identify a new "value-add" to continue commanding premium pricing. The old models are too transparent.

Three Parallel Processes
This maturation is the consequence of three parallel processes common to evolving industries – familiarity, legitimacy, and generational rollover – that are now affecting the leasing industry.

Familiarity. First, the industry is experiencing the natural effects of *familiarity* that normally accompany the diffusion of innovation. As what was once a novel approach utilized by only knowledgeable insiders or "early adopters" becomes a common and widely available financing option, leasing expertise is no longer the purview or the competence of a select few but has become part of the standard repertoire of financial institutions.

More important, the technology of leasing has become increasingly transparent to all participants in the industry, including customers, and knowing how to package a lease no longer provides a distinct competitive advantage.

Legitimacy. This common process in the diffusion of technology has been accompanied by an increased acceptance of leasing as a credible approach to equipment financing. As leasing firms have proven their competence by effective customer service and market performance over time, the industry has become *legitimized* and accepted as a standard form of sound business practice. For example, in recent years, a significant and consistent share [30-32%] of all business investment in new equipment has been financed through leases.

Generational rollover. Finally, through the simple passage of time, the industry has experienced the maturing effects of a *generational shift* both in firms and in executive leadership. Many firms, through mergers and acquisitions, joint ventures, the expansion of territories and lines of business and so on, have evolved dramatically from their original conception. Companies, and their thinking, are more institutional.

Moreover, many firms are now in their second or third generation of senior executive leadership, as the founding entrepreneurs have moved on and their places taken by new generations of professional managers.

These parallel processes of diffusion and growing familiarity with the methodology and concepts, of market acceptance and legitimacy, and of generational transfer of leadership are natural and do not by any means imply that an industry is in decline. They do, however, present a continuing challenge to an industry and its members to continue to grow and adapt as maturation redefines the position of the industry in the larger economy as well as the nature of competition within the industry.

Evolving Structure

In addition to the maturation of leasing as a methodology or a "technology," the industry has also evolved considerably in terms of its structure, and it now makes sense to speak of increased and increasingly stable segmentation of the industry not only in the traditional terms of "ticket size," but also in terms of form of organization [independent; "line of business, "captive] and of customer/industry sector served.

Start-up leasing companies continue to appear using the now-traditional business models of the industry to target and serve specific niches. These various patterns of evolution and segmentation have major implications for access to capital, growth and profitability prospects, and customer marketing strategies.

The maturation of the industry also has implications for the nature and source of leadership and management needed by leasing firms to navigate successfully through the challenges of the next several years. As mature firms move from their entrepreneurial roots to a more permanent organizational stage, the demands for fully-articulated and disciplined infrastructure [such as policies, procedures, etc.] also increase.

Ironically, as this maturation progresses, the leasing industry is seeing new entrepreneurs emerge with next-generation technologies for bundling services and equipment. These new entrants often do not see themselves as part of the equipment leasing industry, which they view as increasingly conservative.

Finally, maturation generally leads to or is accompanied by consolidation within an industry. Several other factors also contribute to consolidation and are considered in more detail below.

EVOLUTION: DISCIPLINE

While seen as a possible element of maturity, the theme of discipline as a standalone permeated the IFC participants' survey responses and discussion. They identified two broad dimensions of discipline: capital markets and the risk behavior of firms; the internal operations and management practices.

In terms of external discipline, the industry is entering a period in which *capital* discipline will be important. This can be expressed two ways, but to the same effect for

the industry. One way is the observation that the providers of capital are becoming more demanding of performance or more disciplined in their lending decisions and that they are consciously and strongly "disciplining" markets by their pricing and availability policies.

Put another way, in the current stages of the capital cycle, there is simply less appetite for risk and, therefore, less funding being made available for speculative or risky applications. With the spreads over Treasuries increasing and likely to remain high for a period, this will bring further pressures on pricing and margins. Successful management will maintain tight control on pricing and focus on markets and customers in which they have advantages and strong relationships.

The leasing industry has evolved from transferring tax benefits and supporting growth through securitization to being a mature industry with commodity-like pricing pressures. Customers are smarter and the demand for services is highly dependent on the capital investment needs of industry. Profitability, sensitive as always to the cost of funds, will be increasingly dependent on being able to translate *experience-based learning* to such key functions as risk management, portfolio management, asset management, re-marketing and unique customer-oriented services.

It should be noted that some IFC participants believe that the equity and credit markets may be over-reacting to the economic downturn and credit squeeze. If the Federal Reserve Board can orchestrate a "soft landing", U curve, for the U.S. economy, the current large spreads and credit squeeze may be a short-term phenomenon. However, the IFC perceived to the fondly-remembered "business as usual" of "easy access to funding" at low spreads over Treasuries as unlikely because of the structural changes noted earlier. Thus capital discipline is likely to be important for some time to come.

In terms of internal organizational discipline, the message was somewhat sharper. The causes of the "train wrecks" noted earlier were seen to be more the result of a lack of internal management and systems discipline than the misfortunes of a harsh market or bad business choices. As one participant noted, "This is a fairly simple business. Many of the train wrecks came about because people never learned or forgot to do the basics of the business well."

Seduced by easy access to funds and pressured to sustain growth rates, firms often failed to follow balanced approach to building the infrastructure needed to support growth. In doing so, these firms may have lost sight of the customer as a partner in a relationship that needed to be nurtured and managed. A parallel consequence of this lack of a disciplined approach to management process is that internal personnel, including key personnel, are overburdened and stretched with little attention being given to sustaining a clear sense of vision and strategy or to developing future leadership. As one participant noted, "There is a tendency to assume that the status quo [whatever it is] will always be. We need to learn how to manage from different positions in the credit and business cycles. As it is, the up cycles tend to hide our sins, and the down cycles highlight them and lead to the cutting of

muscle as well as fat." (See Exhibit II for a simple framework for considering these issues.)

Transparency

Perhaps the most compelling observation of the IFC has been that of the effective transparency of the industry. In the era of the Internet and all attendant technological advances providing access to information about the market, customers, vendors, competitors, and just about anything else -- there are very few secrets and very few differences between lessors and lessees in terms of knowledge and financial and/or technical sophistication.

In the words of an IFC participant, "In an industry where everybody knows everything about everybody else, how does a given firm find a niche?" The imperfections of the marketplace are disappearing slowly, companies should not hope to build a business on them exclusively as they did 10 or 20 years ago.

As a result of the maturation processes noted above and the applications of advanced information technology, leasing essentially has become a commodity product in many sectors of the business. For a firm to achieve success as a lessor, its potential customers have to perceive that the lessor is providing a special service/skill/knowledge for which the lessor is entitled to charge a premium. This *value proposition* represents the lessor's claim to a differential or competitive advantage that removes its products/services from the commodity category.

If this value proposition is based on competences or attributes that the customer values highly and that the lessor can provide uniquely or better on an ongoing basis than its competitors, the lessor has created the potential for a sustainable *relationship* with the customer. The benefits of such a value proposition to both the lessor and the lessee should be obvious. The customer receives a desirable stream of services from a reliable partner. The lessor receives a premium above the commodity or market price and is shielded from the uncertainties of the transaction or deal-driven marketplace.

The challenge for the management of firms seeking to prosper in the future is to shift their focus from *pursuing transactions to building relationships* with customers, vendors, and suppliers in markets where that is possible. Managers need to emphasize a vision and develop strategies that direct investments in process improvements, accelerate the use of integrated technology and software to enhance operations and customer interactions, and develop of leaders with a strategic rather than a transaction orientation.

Among the potential bases for establishing a sustainable value proposition are the following:

- Asset management services [the customer's assets not limited to those under lease from the company providing these services];

- A global platform for leasing in all markets in which the customer participates [the provider of services need not be established in all of these markets but needs a network of alliances and partners];
- Remarketing services for existing assets of customer [including those owned by the customer or leased from other lessors];
- Management and/or provision of service and supply contracts for leased equipment;
- Refresh program services for vendors/ manufacturers;
- Specialized financial, tax, and investment advisory services;
- Full interconnectivity, through intranet or Internet access, to databases for customers and service providers.

In summary, the future leasing company must have either ready access to capital, which will allow it to control prices and box out competition [or secure a higher premium], or it will have to be able to convince customers that it is providing an added value that justifies a premium. The former group is probably limited to the top 25 firms mentioned earlier [or, as an IFC participant designated them, the haves in terms of capital availability]. The remainder [by extension, the have-nots in capital terms] will have to convince their customers that they are providing *Perrier* or *Morton* and not just generic water or salt.

In general, the participants concluded that the above strategy by equipment leasing and finance companies requires them to effectively package and market by establishing *brand-name* recognition. Branding, and all that comes with it, are at the heart of customer retention and premium pricing. It requires a broader skill set for the leaders and managers of leasing companies and moves the focus of a successful leasing company from a deal or transaction oriented one to a customer-service or relationship orientated company.

In addition, the interaction of these major themes in the current economic context led IFC participants to several key observations about the future of the industry. These include the following:

Industry consolidation is likely to continue.
The industry is coming off a period of both easy access to funding and high growth in demand for financing and leasing and into a period where discipline and focus are essential to maintain growth and profitability. A number of companies that pursued growth in sectors highly sensitive to the business cycle or at pricing with marginal profitability are now in distress. This is likely to increase the pace of consolidation seen in recent years. Some of these companies facing distress will be consolidated, some will be merged into stronger companies, and some will be liquidated.

Healthy companies may also find opportunities to merge or acquire to enhance growth and take advantage of economies from technology investments and improved systems. Companies that find access to funding more difficult in these tight credit markets may also seek alliances or partnerships that improves their access to funding.

Industry segmentation will continue to evolve.
New growth activities are developing in small business financing and other retail oriented distribution channels. Areas of specialization, when combined with access to capital (either directly or with third party alliances), will continue to grow.

Other segments likely to see growth include captive finance companies, vendor related programs, franchise lease financing, software and Internet provider leasing, and perhaps—using the capacity of the Internet—microticket and small-ticket leasing.

Growth is still available but likely to be uneven.
With a likely slowdown to 7 to 8% growth in capital investment for industrial capital investment and slowing growth in the low end for computers and consumer oriented equipment, growth in revenues and profitability will be spotty. Companies will have to focus on markets where they have strengths and a differential value proposition to present to their customers.

Companies that wish to pursue a growth strategy under these conditions will need to make critical decisions.

First, companies must consider the definition of growth or dimensions of growth that they wish to pursue. For example, by disciplined management in a time of limited or expensive capital, a firm may choose to defer new, riskier, or more expensive top-line volume (or level of activity) in favor of consciously reviewing and pruning of its portfolio to grow its profitability.

Second, with limited or expensive capital availability, companies will have to evaluate and select among available volume or share-oriented growth strategies, with an eye to both efficient use of resources and longer-term sustainability through the cycle. Thus, a firm may follow a strategy of growing total volume (revenue and number of transactions) by, in effect seeking to "sell more" (quantity, variety, or greater range of products) to its current customers. This would allow the company to save on marketing and sales costs more typical to a strategy that seeks to sell the same or current product line to new customers during a period of fiscal pressure.

Similarly, that same company may use this current period to strengthen its longer-run hold on those same current customers via the introduction of a series of account management or customer support services that have the effect of binding (increasing the dependency of) the customer to the company,

Capital Availability will be significantly different for investment grade firms versus those below investment grade (either due to size or financial characteristics).

The differences between the haves and the have-nots are likely to solidify and grow. Investment-grade companies will likely have continued reasonable cost access to capital and thus be able to maintain targeted margins and acceptable levels of profitability. Firms below investment-grade status will need to specialize in markets where they have special expertise and pricing pressures are not as great. Focusing on their unique value propositions, these firms can continue to prosper, but it will take strong leaders and good management.

We earlier noted the role of discipline, particularly in terms of internal operations such as the creation and maintenance of adequate infrastructure (such as people, technology, and decision processes) and of conservation and effective use of human resource. This role will be particularly important to these firms.

A lesson in point is the recent, highly publicized problem of several telecommunications equipment manufacturers who pursued high-risk, high-volume vendor financing programs with economically fragile customers—often without the protective shield of a leasing subsidiary—to meet short-term market promises and expectations. The viability of a firm, its reputation, its credit rating, and its potential survival are increasingly dependent in tight times on maintaining strategic focus and discipline.

Human resources are strained throughout the industry.
The demands for sustained high growth and the heavy investments in new systems and technologies have put severe demands on existing managers. The real issue for IFC participants is where the industry will find its next generation of industry leadership.

In an age of transparency of information about equipment, prices, markets, and so on, the successful companies will be those that learn how to foster the development, retention, and utilization of human capital. That strategy will build relationships with customers and provide focused and disciplined management of the business.

In addition, the number and quality of personnel training programs must increase. IFC participants regard the quality of personnel to be a significant differentiating factor in a business where companies strive to command premium pricing and loyalty.

Technology, including the Internet, is a means to increase effectiveness in winning and retaining customers.
Among the potential uses of technology in an overall relationship management effort are:

- **Data mining to improve marketing and services for current customers.**

This includes: intelligent monitoring of account history and customer inquiries; proactive marketing of trade-ups, add-ons, and other enhancements; proactive campaigns by customer or deal type; low-cost new product, channel, and market sampling; and intelligent customer query services.

- **Funding and pricing management services.** This includes: problem-solving interaction for alternative products and structures to reduce price and "all-in cost,"

and overall risk-based pricing that coordinates credit, collateral, and structure elements.

- **Total account management and improved execution of basic services.** This includes managing new business inquiries (such as quotes and structuring options); faster, easier credit application, investigation and analysis; fast, convenient, basic account services for payoff quotes, available balances, and terminations; workflow and related communications automation; and sharing access to information to customers, vendors, and manufacturers.

LOOKING AHEAD

The leasing industry will continue to have a significant role in capital equipment financing and related financial services. At the individual firm level, opportunities remain for growth in volume and profitability, with the potential to meet market expectations for return on equity. However, realizing these opportunities will require a higher level of focused and disciplined management than ever before.

Going into this meeting, IFC participants found that the overall outlook for the industry going forward provides more opportunities for growth than industry executives might believe during the current period of uncertainty. These growth opportunities will not be uniform across the industry, however, and differences across industry segments and customer sectors are likely to be more pronounced than in the past. Thus lessors will need to impose disciplined management consisting of:

- A clear understanding of the firm's segment, including the firm's specific competences, its potential niche, and its value proposition relative to its competitors;

- The exercise of discipline in restricting efforts to markets in which the firm can compete successfully and profitably;

- The creation of a value system that focuses on quality rather than volume;

- A defined strategic trajectory to guide near-term decisions as well as long-term strategic programs;

- The discipline to invest in improved processes and systems in growth markets as well as in down markets;

- Assessment of the firm's position and its customer-market segment in the business and credit cycles, to apply appropriate tactics.

- A demonstrated preference for building relationships with customers, vendors, and suppliers.

- The building and valuing human capital through the development of the next generation of managers and leaders.

Summary Comments

The following statements summarize the impressions of the IFC participants about the state of the industry going forward.

- Capital availability will be sharply bifurcated with the gap between the haves and the have-nots widening.

- Those firms that do not have ready access to capital will have to find ways to specialize to demonstrate a true value-add in an increasingly commoditized industry.

- The industry and the overall economy are entering a "smart money" (capital disciplined) cycle after an extended period of "easy money" (undisciplined capital) that may have bred complacency and sloppy practices.

- To compete effectively, firms will require more focused and consistent leadership and management systems and processes, less experimentation and "ad hocracy" Leasing companies, must, for example:
  1. Find more managers with longer-term, strategic outlooks—who are more strategic than tactical, more tactical than operational and transactional.
  2. Move from a deal or transaction orientation to a customer relationship orientation.
  3. Develop leaders and managers with a broader skill set—with a greater focus on the management process relative to functional or disciplinary expertise.

- View technology as a means to improved competitiveness, customer service, and operational effectiveness rather than an end in itself or a standalone function.

- Take advantage of value-added, service-oriented opportunities. The closer the industry moves to commoditization, the more visible and available a target it becomes for regulation.

Concluding Thoughts

What will it take for the equipment leasing industry (and its member firms) to prosper in the face of these economic issues and challenges?

Several key themes emerged from the IFC discussion. While some of these may seem obvious, commonsensical, or even old-fashioned, there is a certain consistency to the five fundamental attributes of industries and organizations that are built to last.

1. Continued strong leadership–at the industry and the firm levels–with a clear, articulated, committed vision of the role and value of the industry in the larger economy.

2. More focused and consistent management, particularly of internal systems and processes: in the effective recruitment, retention, and deployment of people; in the aggressive application of technology to internal operations and customer service; in the consistent design and implementation of efficient management systems.

3. An unwavering concern for reputation: for quality, integrity, reliability, and consistency.

4. The aggressive pursuit of knowledge management as a key competitive advantage: in creating innovative programs, in giving expert advice, and in applying experience organizational learning.

5. An unequivocal commitment to discipline in all aspects of leadership and management: in acquiring capital and other resources, in implementing all internal and customer related processes, in creating and pursuing business strategies and plans, in making decisions on specific transactions and in preserving relationships.

APPENDIX: METHODOLOGY

OVERVIEW

The 2001 Industry Future Council (IFC) met at the Ritz Carlton Hotel in Tyson's Corner, Virginia on January 30-31, 2001. This meeting was conducted by the Equipment Leasing and Finance Foundation and ELA chairmen. Participants were senior managers from leading equipment leasing institutions and representatives from the five ELA business councils.

The IFC is sponsored annually by the foundation and provides an opportunity for industry leaders to discuss and examine issues regarding the future of the equipment leasing and finance industry. The focus of these discussions, while sensitive to the near –term outlook, were directed at a longer term (three to five year) horizon.

The 2001 IFC report is the 20th such report, summarizing an annual discussion on the issues facing the industry. The discussion emphasized the increasing importance of differentiation at the segment level in what is an increasingly mature industry and described the relevant differences.

It is important to note that the IFC looks at the equipment leasing industry from a *macro* point of view. Therefore, its comments may not apply to specific companies or their market segments.

Methodology

The format of the IFC meeting was developed as follows:

1. An advance survey was distributed in advance to all members of the business councils. The survey covered questions on the dominant forces and issues faced by participants, perceptions of customer needs and expectations, personnel issues, technological trends and other industry drivers.

2. The business councils compiled responses of their respective members. These summaries were then used to frame the discussion for the IFC meeting.

3. The IFC discussions were then focused on three broad issues:

- Managing growth through troughs in the business and credit cycles, then, by comparison, the different challenges of managing during upturns and downturns.

- Transforming the industry to a knowledge-based financing services industry.

- Building a value-added proposition – for the industry, segments, and firms – through effective technology application and enhanced services to win and retain customers.

This report is available FREE of charge through the website for the Equipment Leasing and Finance Foundation, www.leasefoundation.org. You may contact the Foundation by calling 703-527-8655.

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