The Foundation is the only research organization dedicated solely to the equipment finance industry.

The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.
Building Beyond Tomorrow

“An organization’s success or failure depends on the assumptions its leaders hold about the future.”

—Collected Voices, Futurist Work Sessions

The Equipment Leasing & Finance Foundation expresses appreciation to the following companies for sponsoring the 2014 Industry Future Council and Report.
About the Industry Future Council Report

Each year, in support of our mission to be “your eye on the future” the Equipment Leasing & Finance Foundation brings together a group of industry executives to form the Industry Future Council. The IFC is tasked with exploring trends, challenges and opportunities and then evaluating how these issues may impact the equipment leasing and finance business for years to come.

The annual IFC Report summarizes these discussions and attempts to bring into focus what equipment leasing and finance companies may want to consider as they plan for future growth. It is the hope of the Foundation that readers will benefit from the insights of the IFC and use this report as a thought provoking resource and planning tool.
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Executive Summary

Serious contemplation of the future is difficult work. The farther ahead we strain to see, the fuzzier our focus becomes. But the strategic planning we do as company and industry leaders requires us to consider the future to prepare for scenarios we deem most likely to happen. Without such planning we may drift, becoming prey to economic trends, regulatory events and other situations whose outcomes we might have influenced or defined, had we been better prepared.

With this in mind, 17 leaders from a cross-section of firms in the equipment leasing and finance industry convened at the Industry Future Council (IFC) Conference, held by the Equipment Leasing & Finance Foundation, for two days in February, 2014 in Washington, D.C. Their mission: to envision the future—not three or four years out, but five to 15 years into the distance—and in so doing, gain insights that could be used to shape the direction of our industry beyond the typical planning horizon, for our benefit and that of our successors.

Facilitated by a duo of consultants from outside the industry who specialize in helping organizations imagine and prepare for their futures, the Conference as a body first struggled to grasp the need for such long-range envisioning. How would it work, and could even a modicum of accuracy be obtained for use in strategic planning?

“Good futures work is not about singular predictions, but about clarifying assumptions, clarifying forces shaping the future, and examining the range of possible outcomes,” a facilitator explained. “An organization’s success or failure depends on the assumptions its leaders hold about the future. Let’s start by sharing our assumptions.” Thus, galvanized by the insights to be gained, the group moved through a series of exercises and discussions that ushered them, psychologically and in stages, from the year 2014 through 2024.

Group assumptions and speculations about the long-term future ran the gamut, from loosened political boundaries that would engender free trade to the financing of assets that don’t yet exist. But three overriding themes emerged. First: Curiosity about the direction of equipment leasing and finance when the Millennial generation assumes leadership. Second: Sensitivity to new and evolving technology that may revolutionize business models and force “total customization” of equipment and services to meet customer demand. Third: Concern about equipment’s increasing speed to obsolescence, and possible customer reactions to it.

Results of a short survey sent by the Foundation to more than 100 industry leaders in preparation for the Conference reflected similar considerations. Respondents provided a wealth of answers about issues they felt had influenced the industry in the past 10-15 years, those that were influential now, and those that might influence the next 10-15 years. But four issues dominated:

• the aging of professionals in the industry
• regulation and compliance
• technology advances, and
• tax reform.
With these subjects and their earlier discussion as fodder, Conference participants next examined pressures for change now affecting the industry. Commodityization, continued evolution of social media and other technology, new business models, alternative lenders, and new entrants to the industry all have the capacity to foist major changes on us, participants said. But evolution of social media and technology drew the most discussion. “Ten years ago, people weren’t going to buy products without touching them,” said a participant. “Now Zappos sells more shoes than anyone.”

The online shoe retailer’s success prompted questions about the validity of comparing shoe sales to the leasing and finance of equipment. “[But] it was more about the customer experience,” said one participant. “We make the mistake of talking about [Zappos] as technology, but it’s much more about the culture of innovation.”

Thinking innovatively themselves, Conference participants imagined a number of scenarios that could occur in the year 2024 and then chose three to develop: 1) “Social Leasing: A New Generation Takes Charge,” 2) “Commercial is the New Consumer: Technology Changes,” and 3) “Outrageous Expectations: Production and Distribution Channels Transition.”

Millennials’ intimacy with technology, fused with their vision of a more equitable society, could revolutionize equipment leasing and finance and create new business models hard to contemplate today, participants said of the first scenario. Because Millennials will assume leadership roles by 2024, companies would be wise to spend time now training, developing and eliciting ideas from this younger generation.

In the second scenario, participants believed information in 2024 will be ubiquitous and inexpensive. As a result, lenders will have changed the way they process and deliver products and services, and customer expectations in these areas will be even higher than they are today. Captive and vendor models will probably strengthen, due to the sharing of data, and direct business models will thrive as business expands, providing capital to more companies and spurring new economic growth. We’ll still have companies that are progressive and/or resource-rich, but we’ll also see increasing commoditization, participants said. Financing will be available to a broader swath of the world, because availability of more data will facilitate better decision-making, thus increasing risk capacity and credit.

The third scenario elicited from participants the vision of a complex network of providers of many types of goods, and a move away from mass production. No longer will there be a need to own certain assets, because businesses and possibly individuals will share assets with others in a chosen network. Networks of providers will span the globe, customizing products at various points via the contributions of specific network members. On-demand production would facilitate product customization. And while these networks may feature providers scattered around the world, speed of product and services delivery will be paramount. To make networks in our industry as responsive as possible, companies may employ technology and business scouts who visit other industries and focus continually on process improvement. If this sounds familiar, participants said, think of Six Sigma, a data-driven process-improvement program that manufacturers have employed for years, because customer expectations are already outrageous.

Without discussions of the future, equipment leasing and finance becomes a stagnant industry. But long-term concerns don’t easily find audiences at our companies, so leaders must do their part to create those audiences and convince them to listen—and then help them contemplate and share their ideas to help shape a vibrant and prosperous future.
Introduction

Facilitator: “How much time do you spend thinking about the future?”
Participant: “A lot. Every day. But I guess the real question is, how far into the future do we need to think?”

February 3-4, 2014 marked the 34th annual meeting of the Industry Future Council, a gathering of specially selected leaders of the equipment leasing and finance industry. Held in Washington, D.C. at The PNC Bank Center, the Conference comprised 17 attendees representing each sector of the industry, as well as a cross-section of market specialties and ticket sizes.

When the Conference first convened in 1987, and for several years thereafter, attendees worked to document current industry issues and summarize current expectations. Over time, however, participants shifted their focus to creating questions that industry leaders could address within their own companies to help them prepare for the next one to three years.

By the early 2000s, the mission of the Conference had changed again, this time to look as far as five years into the future and produce a consensus view. As time went on, Foundation members felt a need to challenge Conference participants to look beyond the typical planning horizon and think more constructively about what the future will mean in terms of trends and technology, and impact on the industry.

Thus the Foundation hired for IFC 2014 consultants Jennifer Jarratt and John Mahaffie, partners at Leading Futurists, LLC a Washington, D.C.-based firm specializing in helping organizations imagine and prepare for the future of their industries. Ms. Jarratt and Mr. Mahaffie brought a carefully thought-out meeting structure to the Conference and led participants through it. What follows is a detailed report of the meeting and its conclusions.

Easing into the Future

Serious contemplation of the future is difficult work. The further into the future we look, the less certain things are. Yet, the strategic planning we do as an industry and as company leaders requires us to consider the future to prepare for those scenarios we deem most likely to happen. Without planning, we set ourselves adrift, and soon find ourselves reacting to economic trends, regulatory events and a host of other situations in which, had we prepared, we might have exerted influence or contributed a defining role.

Understanding the importance of planning did not make this easier to do at the IFC Conference, however, in part because facilitators Jarratt and Mahaffie explained that they wanted participants to look not three to five years into the future, but to project five to 10 years out. The goal: to create scenarios likely to occur in 2024, and then contemplate their implications for the equipment leasing and finance industry. In doing these exercises, facilitators said, “We start with what’s positive about the industry, because it’s so easy for us to wonder what’s going to get us next. Sometimes the good stuff is hard to see.”
Conference participants would gain insights into actions that could be taken now and in the short-term future to prepare.

But talking about the present is more familiar and comfortable, and can serve as a warm-up exercise for contemplating the future. Thus, facilitators asked Conference participants:

**What Makes Equipment Leasing and Finance Great Today?**
Participants weren’t at a loss for answers. The following are among the many positives attendees listed about the industry as of early 2014:

- Flexibility and a willingness to accept challenges
- Openness toward communication and mind-sharing
- An overall willingness to serve the customer and in so doing, to accept and embrace risk
- The opportunity to innovate and chart one’s own course
- Longevity of those in the industry, which creates a feeling of family
- Stability of the product, along with the opportunity to innovate its delivery
- Creativity in solving issues and finding solutions for customers
- Availability of a rewarding career path
- Competitors who come together as industry advocates and creators of customer solutions
- Employees who possess heightened awareness of the industry and a willingness to participate
- A variety of ways to touch end-users
- Adaptability to rules that govern the industry
- Entrepreneurialism
- A willingness to engage young people
- A willingness to volunteer time and share expertise
- Potential to glimpse the future through conferences such as this one
- The growth rate and potential growth of the industry

“Adaptability is the best way to describe what we’re trying to say about our industry,” said one participant. “Back in 1987 at the first IFC Conference, people were saying that the Tax Reform Act of 1986 was going to kill the industry, that the investment tax credit would go away and depreciation schedules would get stretched out … And here we are today, stronger and bigger than ever.”

“That’s true,” said a second participant. “Lease accounting changes have been two to four years away for my entire career. To me, it’s very much about the people. We are a highly professional organization that creates a bridge for executives who could be competitive to share best practices and accelerate the betterment of the industry. The people are something special.”

**Uncomfortable with Uncertainty**

**Why Extend Our Outlook to 2024?**
But if conditions in the industry are largely positive today, and companies are faithful about projecting three to five years into the future when planning strategically, why try to look farther? Isn’t it true that the farther we gaze into the future, the greater becomes the range of uncertainty?

Such were the questions posed by Conference participants, and perhaps rightly so: After all, the equipment leasing and finance industry survived The Great Recession and today is roaring back to growth and prosperity. Why attempt to look 10 years into the future—seemingly an eon where technology is concerned—when we cannot know if our projections will be accurate? What’s more, we have the present and the immediate future to manage. Can we do both?
The further anyone attempts to see into the future, the greater the range of uncertainty, facilitators agreed. “But we can define possibilities and open up our thinking so that the industry builds robustness against that uncertainty,” a facilitator countered. “We can prepare for a range of possibilities and keep the thinking that comes out of it adaptable and flexible. That is our overall goal.”

Participants were thoughtful as they examined the challenge before them. Then one spoke. “We have a tendency to think about threats: Aging, inflation, risk models: how to get ahead of them?” he asked. “But independent of those, what are the opportunities in this world of abundance? The advantage of looking into future is that you get to play those scenarios out.”

“Yes” a facilitator replied. “Here’s a view of the future; where can we play? There are huge opportunities, and we can play in them and win under a lot of different circumstances. The idea is to jump over current concerns for a while, then step back and ask, what do we do?”

To create a group mindset that could more easily contemplate the future, participants took turns answering the question: What did they believe about the future: what would be true in 2024?

Assumptions about Tomorrow

The more participants voiced their thoughts, the bolder their assumptions became. Ideas ranged from a new world order, in which political boundaries change or loosen to permit free trade, to complete customization of products and services for end-users. Following is a list of assumptions offered:

This industry will still be around, because economic growth requires capital.

We’ll see more collection of data, allowing us to be more sophisticated in our credit-decisioning and more efficient in our transactions and customer service.
We’ll be more technology-driven, using technology for marketing, for conducting transactions for entering emerging markets.

We’ll see continued globalization of markets and workforces.

We’ll finance assets that don’t exist today.

Social media will continue to evolve. We’ll have new ways to interact with clients but relationships will still be important.

We’ll develop more and more customization for the end-user.

If regulations continue to increase, some players will be priced out of the market.

The speed to [technology and equipment] obsolescence will increase, creating risk for the industry not seen before. But this quickening pace will also create new opportunity as what we finance changes.

Markets will be so international that even small firms will be able to access them.

Energy will be distributed differently and energy efficiencies will become more important, as will non-carbon-based energy.

A major turnover in leadership will occur [in our industry and in business generally] in the next 10 years.

The lease product will become more commoditized and homogenized and look more like a loan. So the lease as specialty product will blur, and a debt will look much more like a lending or loan product.

Our distribution model will change, creating differentiation between those firms that can change and those that cannot turn the ship around.

Social change will occur more slowly than technological change.

Alternative lenders may bring new capital, disrupting the industry. But alternative lenders could also be disrupted by regulation.
Survey Results

Sharing assumptions and ideas about the future had the intended effect: Conference participants warmed to the subject. They also learned what other industry members think about the future, as revealed in results of a four-question survey sent by the Foundation to 130 people representing a cross-section of industry leaders. The purpose of the survey was to reveal trends, challenges and opportunities facing the industry as perceived by Foundation donors who support the organization's future-focused research. Survey questions were as follows:

1. What are the key changes influencing the industry over the last 10-15 years? Please name three.
2. Which of these forces will continue to be important for the next 10-15 years?
3. What new influences, and changes, will be important for the industry in the next 10-15 years?
4. What else should the Foundation or the IFC consider in their work on the future of the industry? What have we missed?

Approximately 60 individuals, or nearly 50%, responded. To Conference facilitators, their answers looked like this:

Each word in the preceding collage represents an issue important to the industry today and expected to remain important in the future, according to survey results. Points about the industry’s aging workforce, along with its future adequacy and leadership, were dominant. Concerns about regulation and compliance ranked next, followed by worries about the advance of technology and coming tax reform. The charts following show response specifics for Survey questions 1 and 2.
IFC Survey Question 1:

What are the key changes influencing the industry over the last 10-15 years? Please select your top three choices. Use the open box to offer additional answers or comments.

- Credit Crisis of 2008-2009: 90.5% (57)
- Introduction of new technologies to improve business operations and c.: 57.1% (36)
- Changes in product offerings (such as bundling services): 55.6% (35)
- Other regulatory/compliance issues: 33.3% (21)
- Bankruptcy reform enacted in 2005: 3.2% (2)
- The Term Asset-Backed Securities Loan Facility (TALF) financial stability: 11.1% (7)
- Paper documentation process vs. e-signatures: 7.9% (5)
- Sarbanes-Oxley and Dodd-Frank: 28.6% (18)

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IFC Survey Question 2:

From the list above (or your additional answers), which of these forces will continue to be important for the next 10-15 years? Check those that apply. If you added to the list above, you may add to the list below if those forces will continue to be important for the next 10-15 years.

- Credit Crisis of 2008-2009: 23.8% (15)
- Introduction of new technologies to improve business: 31.7% (20)
- Changes in product changes (such as bundling services): 42.9% (27)
- Other regulatory/compliance issues: 58.7% (37)
- Sarbanes-Oxley and Dodd-Frank: 55.6% (35)

“I see an industry largely focused on what’s going on within the industry, with less attention to externalities,” observed a facilitator. “Day-to-day concerns can put us in a defensive mode, and we have to deal with those issues, because that is our daily work,” he added. “But these issues may not leave enough space for thinking about new challenges not yet on our radar.”

The moment is right not to let go of that focus, facilitators agreed, but also to look beyond it by engaging intellectually with the future and discussing key implications of change for the industry.
Pressures for Change

Survey responses referred to sweeping changes in the industry, many of which are already producing pressure for transformations. Process efficiencies, government regulation, new business models, alternative lenders, new entrants to the industry, global sourcing: these are just a few subjects companies are reviewing with an eye toward increased competition, heightened customer service and, generally, continuing to do more with less.

“We can't cover all of this here,” said a facilitator, “but we should be able to carve into some new territory and play out the what-ifs of some of these coming changes. What struck you as the most difficult assumptions about the future to play out? Are we in consensus about the assumptions we discussed? Does anything deserve more discussion?”

Lack of product differentiation
Tech change: mobile / digital
New business models in industry
Shift from leasing to financing
Commoditization
New financing sources
Global sourcing
New entrants / alternative lenders

“Ten years ago, people weren’t going to buy products without touching them. Now Zappos sells more shoes than anyone.”

Participant Survey Responses

Courtesy of Leading Futurists, Washington, D.C.
“What about the cross-over that’s occurring between social interaction and technology?” asked someone else. “Will there be point in time where one [type of technology] outpaces the other so dramatically that the other goes away?”

The questions were pivotal, generating an observation that ignited more specific discussion: “Ten years ago, people weren’t going to buy products without touching them,” said a participant. “Now Zappos sells more shoes than anyone.”

“So maybe the companies that started these things were ahead of their time,” mused a different participant. “And now, the companies that are successful in these areas are also advanced in their technology. If we ignore them, we might get surprised by them. Sometimes, trends take a while to break through. But eventually, they do.”

Why Zappos is So Successful

Zappos.com, Inc., is an online shoe and clothing retailer based in Henderson, Nevada. Born in 1999 of one man's frustration shopping for shoes in his size and in the color he preferred, Zappos is now one of the largest shoe retailers in the U.S. The firm joined Amazon.com in 2009 and in 2010 restructured into 10 separate companies under the Zappos Family umbrella.

“Regardless of our structure, our goal is to position Zappos as the online service leader,” says information on the firm's web site (www.zappos.com). “If we can get customers to associate the Zappos brand with the absolute best service, then we can expand into other product categories beyond shoes. And, we're doing just that.”

“It's definitely about customer service,” said a conference attendee who is also a Zappos customer. “Dealing with Zappos is much different than dealing with a lot of other online shopping sites. It's easy to use, they're fast and they have free shipping, and that ties in with how the customer relationship changes. My relationship with Zappos is really convenient.”

But is it appropriate to compare Zappos’ technology and customer service practices with those of a firm financing, say, a $1 million piece of equipment? “You're never going to lease a commercial airliner with an iPhone,” said a different participant. “Maybe you are!” responded another. “I just bought a car a couple weeks ago, and I can't wait until the day I can do the whole process without talking to anybody.”

“Zappos didn’t stumble onto its technology, it was all there,” observed yet another participant. “It was more about the customer experience. We make the mistake of talking about it as technology, but it's much more about the culture of innovation.”

“As technology increases, someone might sell a different [business] model that is high-touch, and people will pay for that,” offered another participant. “It’s the Nordstrom approach: at the end, it’s about the customer experience. If you can have a process that isn’t technology-enabled but creates great experience, that’s what it’s about.”

“But customers want more and more customization,” challenged someone else. “How do you achieve that if not through technology?” Thus was the case made for the creation of what-if scenarios: They help us imagine the future more clearly so we can better prepare.
What-If Scenarios for 2024

Think of situations that could be possible in 2024, facilitators suggested. Then pick three and construct scenarios around them by envisioning specifics that would occur if those situations were reality.

Accordingly, participants listed more than a dozen situations that could become realities by 2024. China could surpass the U.S. as the leading global economy. End-users could rebel against the speed of developing technology and refuse to replace their equipment every three years. Regulation might prohibit banks from acting as direct lenders to leasing firms. Regulation might also hobble non-bank leasing and finance firms, forcing changes in business models.

Participants voiced numerous concerns about regulation. But they also generally agreed that, 10 years from now, this “flare up,” while disruptive in the near term, will have “normalized” while technology and demographic shifts will continue unabated. Thus Conference participants chose the following three what-if scenarios.

**Scenario One: A New Generation Takes Charge**
What would Millennials build if they decide to construct a new version of this industry? What transformations would take place socially, in the work environment, and in B2B? What technologies will prevail, and how will Millennials conduct business?

**Scenario Two: Technology Continues to Evolve**
New technology brings operational changes, changes in information accessibility and in relationships with customers. But changes in technology may not matter as much as changes in processes. Perhaps by 2024, everyone conducts business in the Cloud. But this development might not preclude the way our business is done now. What do we think will happen?

**Scenario Three: Production and Distribution Channels Transform**
Facilitated in part by three-dimensional printing and a continuing move toward greater efficiency, a growing percentage of manufacturing production is done on demand. This radical change influences the types of lending done by equipment leasing and finance firms, and possibly, securitization against soft and hard assets. Distribution channels transform and at the same time, new opportunities present themselves. Perhaps some leasing and finance firms themselves become producers of certain assets on a micro-scale?
What if These Scenarios Really Happen?

“Go out beyond your sense of plausibility and create a broad idea of what's happening in each scenario,” a facilitator suggested. “Go to 2024 and stay there for the duration of this work.” Participants would have a chance to return to the present psychologically later, and ponder how their companies could begin adjusting today for the future.

But participants were hesitant. How would designing stories about these scenarios help clarify their views of the future? Wasn’t this exercise a little “out there” for such a pragmatic accomplished group of executives? “These are inputs to thinking, not forecasts or outputs,” the facilitator explained. “We want to see some transformations that give you new places to think. Any changes to today’s situation will have expected and unexpected consequences.”

Moments later, participants divided into three groups, each tasked with developing a “news story” about one scenario. Following are their versions of 2024, and possible implications of each.

### 2024: Social Leasing

**A New Generation Takes Charge**

Members of the Millennial Generation (those born between the early 1980s and the early 2000s) are now strategic planners for our company, and they measure ROE in new ways: how well is the company taking care of its clients? Its employees? Its shareholders? Is the company treating all of these stakeholders fairly?

Millennials also look for more diverse ways to take care of people, so the strategic plans they create are built around social responsibility. The firm’s relationship with regulators is more collaborative, and client interface revolves around virtual aspects of doing business, taking to employee experience to the next level as a virtual workforce. The company is also more focused on financing virtual activity: software, use of the Cloud, and other intangibles we have yet to imagine.

Meanwhile, more fairness has been built into the leasing model. Companies like ours have figured out how to charge more equitably for their services, allowing customers to pay on a sliding scale according to size or revenues. Everyone is a winner! “None of us thought this is a business model we’d embrace, but maybe Millennials would,” said one scenario builder. “The whole idea pertains to a social model of business that would be different than it is today.”

Although the Baby Boomers have retired, Millennials have learned a great deal. They are still receptive to a redistribution of assets, with shareholders possibly at the bottom of the list. Where does equipment leasing and finance play in this scenario? How does it get sold? The scenario leader answered without hesitation: “We create a new business model.”

**Implications of the “Social Leasing” Scenario**

- Companies in our industry might become so isolated that they do business only with other like-minded companies—or, they provide financing only for like-minded companies. Customer companies that change their business philosophies incur a penalty.

- But capitalism fades, because if we all become partners, who will be left to compete?

- Social leasing may be about the sharing of resources and relationships, but each time someone comes up with a
new idea or a new way of doing things, we’ll revert to capitalism. Whose idea is best? People will still pay for new ideas, and competition will thrive.

- ELFA establishes a council of Millennials. But this happens well before 2024, due to the realization that some firms in our industry regularly quash young peoples’ ideas. “It’s something companies with an older workforce have a tendency to do,” said a participant.

- By 2024, companies will have more part-time jobs, more tele-commuting, and more global workforces.

- Our industry will also have more sources of capital, and perhaps even crowd-funding. Dozens of people might join together to buy a new Chrysler! Opportunities will flourish for those who can provide low-cost leasing and finance.

- Our industry will also place more emphasis on leadership development. We don’t spend enough time on leadership development now, and as Millennials come up in the ranks, we will need to. “A young employee who’d been with my company for six months said to me, ‘I’ve given my life to this company,’” said one Conference participant. “Millennials already expect their employers to train and develop them—and if we don’t, they will go to other companies that will.”

- Diversity will change this industry “from a bunch of stodgy old white guys,” in the words of one participant, to a mix of ages and ethnicities. This will take time and will likely cause pain at firms that resist. But companies that achieve greater diversity soonest will have greater chances of success.

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**2024: Commercial is the New Consumer**

**Technology Continues to Evolve**

In 2024, information is ubiquitous and cheap. This development has changed the way lenders process and deliver products and services. It has also changed customer expectations, particularly about speed of service and delivery of information and other products.

Captive and vendor models have strengthened, due to the sharing of certain data. Captive-vendor alliances allow more exchange of information that previously wouldn’t be available to either sector separately.

Direct models thrive as business expands, providing capital to more businesses and spurring economic growth.

Technology tools are widely available, but consequently, all companies use them. Companies have the ability to segment customers in ways that we don’t segment today. But what must we pay for that information, and how do we package it and use it?

In 2024 information and transactions will be cloud-based, resulting in more self-service.

Culture could become a significant differentiator, revolving around customer experience. Increased transparency could reduce regulation and result in fewer barriers to entry into the industry. More plug-and-play tools are available to all, but some equipment leasing and finance firms will, by design or through additional resources, have access to a higher level of data and resources that others don’t have. This will create a two-tiered industry.

We’ll still have companies that are smart and/or resource-rich. But this is more about how you integrate, and in the future, how those practices get adopted by companies. You may find someone who’s buying something and bring him to financing. Is financing the hook that brings you and the customer to other products and services? Maybe.

We’ll see increasing commoditization. More financing will be available to a broader swath of the world. More data will also be available, due to widespread collection or tracking. But availability of more data allows better decision-making and thus a broader availability of risk and credit.
Implications of the “Commercial is the New Consumer” Scenario

• Technology enablers will have much more business. But technical IT roles will be limited, because more people are needed for solving business problems than for solving technology issues. Demand will rise for those who can sell and use technology to do it. Demand will plummet for those who can fix routers and PCs.

• Work cultures among progressive companies will change from top-down to bottom-up. This is already happening at leading firms. But the transition is extremely difficult. It’s hard enough to make good decisions when they are made by a few at the top. Decisions made from the bottom up would by definition be more collaborative, and thus would require new processes and procedures to ensure efficiency. Said one participant, “We did it at our company, and it has been the most difficult challenge we’ve faced.”

• Changing to a bottom-up decisioning process is seismic. It influences risk-taking. How larger organizations will accomplish this—especially those whose infrastructure has been in place for decades—is hard to contemplate. Twenty years ago, Southwest Airlines was more profitable than any other airline. Southwest is still one of the top three airlines today, in part because competitors have been unable to modify legacy processes and thinking. If big changes occur in the way commercial lending is done, will large financial players be able to alter their models to adapt, or might new entrants have an advantage?

• Technological change sometimes results in new business processes. While early adoption of successful new technology can provide competitive advantage (as in the Southwest Airlines example), early adoption of fundamentally new business processes is much more difficult for competitors to reverse-engineer and can result in sustainable competitive advantage.

• Information and technology have become so important that the job requirements for corporate leadership may be changing. CIOs who master the interpretation and application of data may become CEOs, reflecting the strategic value of data and technology and the important business changes that may stem from it.

2024: Outrageous Expectations
Production and Distribution Channels Transform

We think commercial clients today are demanding, but what will that profile look like in 10 years? It starts with a projection into the future about distribution and networking. We’ll have a very complex network of providers, and a move away from mass production. The trend will be customization of products, with a new surge toward quality and craftsmanship. Yet, the product itself will become less important as solutions, service and the combined value of these rise in importance.

Distribution, in contrast, will focus on the mass efficiency and resemble Amazon.com. But the lifespan of players in our industry and others will be shorter, shortening the longevity of companies. No longer will there be a need to own assets, because businesses and possibly individuals as well will share assets with others in a chosen network. “Share” and “refresh” will be bywords of our industry.

Networks of providers will span the globe, customizing products at various points via the contributions of specific network members. Think of a Facebook-like framework for distribution that would start and stop on demand. On-demand starting and stopping would be necessary for customization. And although such networks would feature providers in many different locations, they would still be required to meet all customer demands for customization and speed of delivery. To make networks in our industry as responsive as possible, we would employ technology scouts and business scouts to focus continually on process improvement. If this sounds familiar, think of Six Sigma, a disciplined, data-driven process-improvement program that manufacturers have used for years to operate their businesses, because customer expectations are already outrageous.
Implications of the “Outrageous Expectations” Scenario

• In this age of specialized assets, how will companies remarket customized equipment? Who will want equipment customized for someone else—and what will become of this equipment if customers consistently return it after three years? Leasing may become increasingly expensive in the face of customized assets and lower residual values.

• Might firms become afraid to take residual-value risk as a result? If no one wants to invest equity, the supply chain may break down and require redesign. To speed up production delays caused by customization, manufacturers may assign various stages of development to specific suppliers or locations. But end-assemblers won’t want to carry that debt, prompting suppliers to need specialty financing. If your firm belongs to a network that provides mass customization, you may have different opportunities.

• If you’re looking to add different companies into a supply chain, you’ll need collaboration between firms and resource-sharing of facilities and processes in general, not just in our industry. Why? Because smaller firms may need capabilities or equipment possessed by larger firms, and vice versa. Network-member firms will realize enormous efficiencies if others in the network provide tools, assets and services for each other.

• Do these implications strain the nature of equipment leasing and finance as an industry? Or do they pave the way to access of a broader set of clients?

• More than 50% of what is financed today is soft product, and that trend toward the financing of low collateral value items is expected to continue. It will include servicing and plug-and-play abilities, generating that many more providers as well as customers. “Finance is the glue,” said one participant. “The challenge is bringing it all together in a way that makes it easy to acquire and use the underlying product.”

• Transactions will change as financing is integrated into evolving supply chains. Said a participant, “You’re looking not at five-year deals, but at a range of solutions that are more fluid and involve more parties.”

• Will this fluidity and increasing transaction complexity make the product more expensive? Perhaps. But in the office-equipment industry, transactions already include IT hardware, software, and other components. “What ties these assets together is the way the customer pays for them—via a single invoice—finances them and tracks them,” said a participant. “Can we control multiple aspects of such an arrangement? Absolutely,” he added. “The more often customers can have a one-stop shop of any type, the better.”
How to Meet Our Numbers and Make Changes for the Future?

Three Horizons Thinking

To develop steps that can be taken today and in the short-term future to prepare for the future longer-term, facilitators introduced Three Horizons Thinking. *Three Horizons: The Patterning of Hope*, by Bill Sharpe (Triarchy Press, UK, 2013, www.triarchypress.net), is oriented to government policy work, but many futurists and others are using the tool in business and scenario planning. Theoretically, each horizon contains actions that can be taken, drawing on a particular perspective of the future. Horizon I represents the present. It contains companies and processes currently in place, as well as systems developed over time that cannot be easily discarded. Horizon I is the jumping-off point, facilitators said, the place for beginning to think about steps that can be taken toward tomorrow.

Horizon III represents the long-term future. In this horizon companies are free to innovate, redesign, re-do and end up with something entirely different than they started with in Horizon I.

Horizon II serves as a bridge between Horizons I and III. In Horizon II, companies work to make reasonable changes that will smooth the transition to Horizon III. The challenge, as one participant described it: “to balance present responsibilities with those in the longer-term future while continuing to operate today in a coherent fashion.” Participants divided into three groups to further explore each horizon.

**Horizon I: 2014**

“It’s necessary today to have a realistic eye on the future,” said Horizon I’s group leader. “So our company wants incremental growth, and we think we’ve accomplished that in the past. Our outlook is a long horizon that can be dealt with incrementally. We don’t have to create a new business model, because that will create itself in time.”

Historically, the company inhabiting Horizon I “has been known as predictable firm that thrives on historical data,” said the group leader. “Shareholders like our predictable, constant returns. But we do listen to our customers, and as they change, we change. We like our current way of doing business, but we’re also realistic that things need to change—just not at a hectic pace.”

**Horizon II: 2015-2023**

“We think the key to crossing this bridge from Horizon I to Horizon III is a roadmap,” said the group leader for Horizon II. “We must set our sights set on Horizon III. We must also have a view of what success is, so that if steps taken toward Horizon III don’t work out, we can try other steps that may.”

Horizon II participants were excited about getting to Horizon III, they said, but they expected bumps along the way. That’s why we’re stringing up a safety net—so we won’t fall, said the group leader. “We’re committed to the future, and we need change agents who can help embed change into our culture. These reinforcers will help us keep moving forward.”

Entrepreneurialism and other tools would be used on the journey to Horizon III, participants said. “We’re not afraid to fall, but we know some parts of our bridge are old,” the group leader explained. “We just have to stay focused on where we’re going and how we’ll get there.”
**Horizon III: 2024**

“Firms looking 10 years into the future must begin with a vision,” said the group leader for Horizon III. “Our view was that organizations need to articulate that vision, which is long-term. By 2024, our firm will be an information company instead of a leasing firm. We’ll have re-engineered through research and development to become more of a distributed model than a centralized model. We’ll have employees whose job is to look at transformational change on long-term basis. We don’t expect an immediate financial return on this investment, but it’s worth resourcing to get us there and figure out how new tools can be used. This vision won’t be 100% accurate, but it’s the only thing that will allow us to leapfrog current events and stop taking incremental steps.”

All three perspectives are valid, facilitators emphasized, but each is different, and an organization may encounter each of these outlooks among its people. The key is to make use of all perspectives when planning for the future.

“If we look back at General Motors before the government bail-out, there were few people at the company who were other than Horizon I,” said a facilitator. “The same was true at a large manufacturer I worked for,” said a participant. “You would go to the ivory tower that was the home office, and it felt like stepping back into the 1950s. You could feel it and smell it, but no one did anything about it.” In fact, the manufacturer produced a high-tech version of one of its products, but never marketed it. “They said no, that’s not the business we’re in,” a participant recalled.

Often, the largest challenge for any organization looking to invest in the future is the lack of return on investment associated with it. “If we want to effect transformational change, perhaps we need to study those firms that have disrupted the status quo in the past and are now highly successful,” said a participant. “What did they do, what are they doing now, and why have these actions made them successful? How can our companies learn from these innovators?”

In “Outrageous Expectations,” idea scouts visited various industries and returned to the company with new ideas that could be applied to equipment leasing and finance. Said a participant, “For the one time in 10 that Horizon III thinkers are on track, we have to find ways to pay attention.”

“Here’s one observation I’ve lived through,” said another participant. “This industry has been made up mostly of [Horizon] IIIs. Then those companies were bought by [Horizon] Is, and you see those dynamics come together. The Is are often willing to let the [equipment leasing and finance] companies they buy operate initially in a [Horizon] II or III environment, and if they see wins, they’ll live with the situation—but it’s uncomfortable for them.”

Other participants agreed, with one adding a thoughtful end note: “Companies by themselves may not be able to make the changes needed to get to the long-term future. But by investing in equipment leasing and finance professionals, they can bring that ability in. The lesson is, if you can’t think of the future yourself, acquire the means to do it. –And don’t throttle it back.”

**Conclusions**

Without discussions of the future, equipment leasing and finance becomes an industry that is more reactive than forward moving. Yet forces across the marketplace continue to drive change. All industries have to move and evolve. But long-term concerns don’t always find an audience at our companies, so as leaders, we must do our part to create that audience and convince it first to listen—and then to think and act in ways that contemplate and capitalize on these trends.
People innovate; companies generally do not. Companies are built to create standardization and control, and many firms in our industry have been around a long time and are now staffed mostly with more mature personnel. To create innovative companies, we must help our people be open to new ideas. We must also encourage them to share their own ideas and thoughts, and find ways to implement from the ground up.

When we plan strategically, we tend not to look far enough into the future. But the further ahead we gaze, the fuzzier the view becomes. Yet, we have the opportunity today to manage several trends already identified.

We must take responsibility for marketing our industry to future generations. We must create internships and market to universities and colleges in a way we haven’t in the past. We must take advantage of tools already available to us, such as the Guest Lecture Program, a customizable slide briefing available from ELFA for recruiting.

“When I took my job, I heard loud and clear that employees wanted more diversity,” said a participant. “We have to ask ourselves: Are we building the right talent to foster these changes? Sometimes we need new ideas, and I’ve seen my leadership team shoot down new ideas. [But] we need to spend more time thinking more about the future, because the future can help us in the present, as well as going forward.”

By building beyond tomorrow, we will help to preserve the vitality and opportunity our industry has generated, creating rewarding possibilities for ourselves and those who follow.
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