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Innovation: Evolution or Revolution?

What constitutes innovation in our industry? What has stopped organizations from innovating? Is now the time to innovate? Business first or customer first? Does innovation need to be evolutionary or revolutionary? These are the questions a group of finance and technology experts recently convened to explore.

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By Katie Emmel

In March 2020, a group of equipment finance professionals gathered in Naples, Florida, after the Equipment Leasing and Finance Association (ELFA) Executive Roundtable, to discuss innovation in our industry.[1] This meeting of the Technology Innovation Leadership Series is an ongoing exploration of how technology can and will impact equipment finance.

This group included a blend of finance companies, technology vendors, an industry consultant and ELFA leadership. They explored a series of basic topics related to innovation, starting with the Foundation's question, What is innovation? There have been ongoing industry discussions on the need to innovate to remain an integral part of the global economy. The question remains: What has stopped some leasing organizations from moving in this direction?

Digital signature has been frequently discussed as innovative technology, but is that really innovation? The technology innovation group did not think so. The technology to support digital signatures has been available for well over a decade, yet many businesses have not incorporated this in their standard business practices.

The group explored barriers to innovation, what constitutes revolutionary innovation versus evolutionary innovation, and what it will take to move from discussions like these to action.

One core approach to answering these questions was to look at how to disrupt our industry in order to drive innovation and the adoption of technology. There were discussions of conducting a "kill your own business"[2] exercise or a "hackathon"[3] to spur innovation. This was an attempt to identify ways to disrupt business before someone or something forces disruption upon us.

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Since the onset of the pandemic, businesses have moved to a work-from-home model that has changed the way we interact and the way we provide services to our customers. Video calls have become the new normal, providing a window into colleagues' personal lives. This is not a test, this is not a business continuity plan drill: this is true disruption. Innovation is the path forward, which is providing the ability to continue to operate in this new environment of unprecedented change.

With the COVID-19 disruption, technologies like digital signature are gaining adoption due to the new landscape of employees and customers working remotely. Disruption is forcing change, imposing the acceleration of technology adoption and a new way of thinking about how we do business.

IS NOW THE TIME TO INNOVATE?

Being deliberate about setting aside resources to focus on innovation is difficult for even the most forward-looking organizations. We live in a world of capital expenditures requiring a defined return, with as much risk removed from the equation as possible. With innovation, there is inherent risk that what you invest in today may not be right for where the market goes in the future.

The risk of innovation is a risk we must take as an industry. The group of leaders who gathered in March all felt that it was important to set aside budget to innovate.

But what is innovation for our industry? Is it finally getting to digital signature and removing the paper requirement for a transaction? Is this the type of innovation we are talking about? Or is it something more? In our discussion, many ideas were put forth on innovations that would advance the industry. To try to best represent the thoughts of the group, we break this down into two categories: business model innovation and technology innovation.

BUSINESS-MODEL INNOVATION

We are all familiar with the changes companies like Uber have had on the taxicab industry or Airbnb to the hotel industry. These companies took an established marketplace and looked at the problem through a different lens. Uber removed the challenge of hailing and paying for a taxi, and Airbnb provided reasonable accommodation for those not wanting the pay the premium of a hotel.

What seems obvious now was a problem statement that needed a new answer. Both of these

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examples focus on customers and their experience. Customer experience will become increasingly important to equipment finance. Customers are being conditioned to expect a frictionless process as they interact with any business.

As we see a new generation of consumers emerge, a digital consumption-based experience will become the norm. The COVID-19 crisis has magnified the need for and in many cases exposed the lack of digital customer experience.

To achieve business model innovation, we have to think big. This was a common theme in the discussion of how to move innovation forward. For example, the group exercise of using a blank sheet of paper to build out an application helped one company to reimagine the finance process. The process focused on removing constraints associated with current business models and enabled them to remove the mindset barriers that might interfere with a new approach to an existing pain point.

Thinking big does not come without risk. In this time of extraordinary change, however, leasing companies have an opportunity to look differently at their business models, in their effort to deliver the best possible customer experience — which also likely leads to market share gains.

Part of this discussion focused on the question of "business first or customer first?" Our instinct and business training tell us that we should put customers first. But what we see in practice is an attempt to mold business-first processes into a customer-first application.

These two approaches are not mutually exclusive. We need solid business processes in place to ensure the fundamentals of the finance operation are sound, but we need to do this with the customer as the focal point of the process build-out.

Each interaction point with the company's customers and partners needs to be evaluated, and each step of the financing process needs to be reviewed with the mindset of how each step impacts the overall customer experience.

At the heart of business-model innovation is the ability to create new business opportunities. However, the key question we pose in this article is, Does innovation need to be evolutionary or revolutionary? We will explore this in greater detail in the Technology Innovation section, because it is an important question as we look at business-model disruption.

Today, many businesses have had to evolve due to work-from-home mandates. In many cases, technology had already been deployed, though not fully embraced. Those who had migrated key business processes and applications to the cloud were better positioned to

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Are the steps your company's users must take to accomplish a task both easy to understand and easy to navigate? Are the processes well laid out, allowing the user to complete the transaction in as few steps as possible?

quickly adjust to this new remote working model. Others, however, lost time in having to quickly figure out how to remain operational without staff going into the office. However, this is evolutionary, not revolutionary.

Revolutionary is where we will see the biggest leaps forward in our industry. We are already facing incredible disruption. Now is the time to break down the assumptions of the past and look for new ways to deliver better customer value — which in the end will provide a better overall return.

TECHNOLOGY INNOVATION

When we talk about innovation, the conversation naturally gravitates toward technology. This is where we see the most tangible forms of innovation. It was not that long ago that the thought of a person's cellphone being a primary source for all forms of entertainment and business would have been considered impossible. As Apple and others have paved the way, the phone is now the central hub for so much of life — like it or not.

The reality is that technology is changing the way we live and interact, which in turn is creating an expectation for the customers and partners we serve. With much of life accessible through mobile technology, customers are accustomed to and increasingly expecting frictionless experiences in both business and personal interactions.

As we stated above, it is important to look at each customer interaction point to identify the opportunities for innovation. Thinking through this from a technology perspective, this means walking through user interaction points experienced through the user interface. Are the steps your company's users must take to accomplish a task both easy to understand and easy to navigate? Are the processes well laid out, allowing the user to complete the transaction in as few steps as possible?

Although it is important to ask these questions and go through the exercise to see if it makes sense for your company, the best test of this is to bring in someone who is a digital native (i.e., a person born or brought up during the age of digital technology) and ask that person to walk through the process your company has established. This experiment will most likely challenge your assumptions and provide insight into how to improve your company's overall customer experience.

The world is rapidly changing and evolving. The idea of a global disruption to our economy is no longer theoretical. It is real. It can and has happened. The key for equipment finance and for the financial world as a whole will be our ability to respond to this disruption.

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Do we evolve to simply ensure business as usual even when working remotely? Or does this trigger a bigger response? Does this spark revolutionary thinking in how we approach equipment finance? What are the assumptions we are holding onto that hold us back from making a significant change to how we do business?

As we discussed these questions in the group, we kept touching on the new reality of customer expectations that technology is not something you do — technology "just is." This concept has the potential to be revolutionary if we embrace it at its core.

If we approach technology as being fundamental to customer interactions, it will spark change across the industry. For example, when we talk about credit, is the only answer to assessing risk based on a number issued by one of the credit-reporting agencies? Are there other ways to establish creditworthiness? And here is the most challenging question: Can artificial intelligence (AI) provide better risk assessment than classic human underwriting?

In his recent book T*alking to Strangers,* Malcom Gladwell digs into this topic of AI by citing a study conducted by economist Senhil Mullainathan of 554,689 bail hearings held in New York City between 2008 and 2013. The research team discovered that almost 50% of those released on bail either did not appear for their court date or were arrested for a subsequent crime.

The team applied machine learning to the raw data available to the judges who granted bail, with the result that the AI program made better bail decisions. Had AI been applied, it would have resulted in 25% less crime. If we were to apply this to credit-decisioning, how would it affect how we determine creditworthiness?

Machine learning is only one process to be considered, but it points to the potential for new ways of thinking, which in turn could open new avenues of opportunity for equipment finance.

WHAT CONCEPTS SHOULD WE BE CONSIDERING?

In our discussion, the topic of innovation was viewed from different vantage points. With representation from both finance companies and technology providers, the group addressed several concepts that are worth a brief discussion. This discussion included "next steps" in trying to determine how to move forward.

The Role of Data

Information is the foundation of our industry. We need to know specific details on each asset financed. We need to know the person or entity financing the asset. We need to establish term and payments.

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Any asset that has some time- or usage-based element has the potential to be financed based upon that unit of measurement. This cuts across sectors and asset classes and provides an option for a more flexible financing option.

Data is how we make our decisions and drive our business. However, as more data becomes available, are we leveraging this data to its full potential? As in the credit-decisioning example, the use of data can be a powerful tool and can open new opportunities for equipment finance organizations. What are the similarities between prospects and customers? Can AI provide enough transparency in look-alike referrals to exponentially increase opportunity?

A good example of putting data to work is usage billing. This is a concept that has been embraced by office imaging companies for decades. It allowed them to innovate their business model to bundle in consumables and service offerings into their per image fee structure.

As our world becomes more connected through the internet of things (IoT), we have access to more data than ever before. This is where we need to ensure we are thinking about innovation both from a business model perspective and supporting technology. Any asset that has some time- or usage-based element has the potential to be financed based upon that unit of measurement. This cuts across sectors and asset classes and provides an option for a more flexible financing option.

There is a key dependency for leveraging data – one has to be able to track and account for it at a system level.

The New Secret Sauce

One of the concepts that is becoming more prevalent in equipment finance is the interconnectivity of systems. Gone are the days of standalone proprietary systems. Over the course of the last decade, there has been a growing open-source movement, which allows for systems to talk to one another — royalty free, typically — until a commercial threshold is crossed or premium features are required.

This model and associated web services/API (application programming interface) based concepts have pushed technology vendors to provide connectivity into other applications with a goal of providing a great overall experience for end users.

Salesforce.com was one of the early pioneers of this concept through its AppExchange. This allowed Salesforce.com to focus on the platform while other specialty companies could focus on providing additional functionality to the platform.

Organizations have benefited from this approach, which enables them to improve overall customer experience with applications built on Salesforce.com's platform tailored to meet their specific needs. This integrated approach and system-level thinking has removed manual steps across disparate systems to create a seamless experience for the end user.

The connectivity concept is finding its way into the equipment finance

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industry. With finance companies looking for more integrated systems and technology providers moving to new delivery methods including cloud and mobile, the ability for the industry to make a significant leap forward is close at hand.

Systems need to talk to one another to provide a frictionless experience for the borrower. For example, your origination solution should be able to connect with credit-reporting services, access appropriate tax rates by geography, and calculate insurance, allowing the process to move quickly and automatically if application thresholds are met.

We should be looking to reduce the number of manual steps in any process to become as efficient as possible. However, this is not solely a technology issue. This is a business issue that requires moving outside of traditional thinking.

We need to look beyond incrementally improving what is already in place and refine business processes to provide a customer-centric application. As an industry we need to think in terms of ecosystem and how to ensure that all of the supporting technology to our processes work together.

TECHNOLOGY'S NEW HOME

Technology has underpinned equipment finance from the beginning. Finance companies have leveraged technology tools to manage the life-cycle of a contract. These technology tools have made significant strides in providing real-time data and analytics to help understand the status of a portfolio.

Although strides have been made in providing aligned functionality, the equipment finance industry lags in the adoption of cloud-based solutions. Given the sensitive information associated with financing, the slowness to adopt this delivery mechanism is understandable.

The reality is technology has a new address. It no longer lives in a data center: it lives in the cloud. This may not be true for your organization today, but it should be something you are strongly considering.

Historically, companies built data centers to provide a world-class computing backbone for the applications to support their equipment finance business. In some cases, in-house data centers were thought to handle increasing volumes and potentially achieve a competitive advantage.

Today, organizations realize that data centers are more of a financial burden of heavy IT costs coupled with a never-ending race to keep pace with computing needs and changes. They do not help businesses grow and are often a barrier. Industrial cloud providers like Amazon and Microsoft provide the scale needed to handle any application, due to their ability to work

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These subgroups also provide the ability to attract emerging talent into our industry, in the form of people who look at the world from a different vantage point, embracing innovations found in customer engagement arenas like fintech.

across geographies and quickly failover to a backup data center if something were to happen to the primary site.

The need has never been more apparent to disassociate what an application provides to the user from its physical location. As the pandemic hit and companies around the world asked their employees to work from home, those with cloud-based applications were able to quickly move to remote operation without disruption. There was no need to have IT on site to maintain application integrity. Remote workers could connect like they do in the office and continue to perform their daily responsibilities.

Many companies are changing the way they account for cloud enhancements. Previously, when a company would purchase or lease a piece of equipment, there would also be a maintenance contract fee applied to the equipment that would cover service and upgrades.

In the new cloud-based environment, a company pays for the processing power that it uses, which could have parity with, or be less than, what just the service fee would be. As we move forward, the cloud will continue to provide the advantage of economies of scale, which will drive down the cost of IT and further push application management into the technology vendor community.

TAPPING INTO PURPOSE

To this point our discussion has focused on tools or processes that can be implemented to help achieve innovation. Yet innovation extends to all aspects of equipment finance. We have seen actions within our industry and in ELFA in particular to embrace diversity and to push for inclusion of new participants within our ranks.

Within this group, many have supported ELFA's Women in Leasing and the new Equality Steering Committee, which bring fresh ideas and new perspectives to equipment finance. These subgroups provide an opportunity for emerging industry leaders to bring new perspectives, with the freedom to think beyond traditional boundaries.

These subgroups also provide the ability to attract emerging talent into our industry, in the form of people who look at the world from a different vantage point, embracing innovations found in customer engagement arenas like fintech.

A growing number of people want to work someplace that is having a positive impact in the world. This may manifest itself in creating a positive work environment, but it is more targeted to the outcome of the individuals' work. Are they helping to start or grow a business through their company's financing function?

In short, to this group of emerging leaders, the *why* of what we do

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We are a piece of a much larger global puzzle. However, if we start from the foundation of the why of what we do, we believe it will give us the opportunity to attract diverse and emerging talent.

is just as important as *what* we do, and purpose becomes central to their individual motivation for work. This is a tangible outcome that taps into purpose and keeps employees engaged.

Our technology innovation group believes that what our industry does is foundational to the economy. We provide access to financing that empowers the economic engine of our country and beyond. Small businesses would not be able to start if they did not have access to financing, and it is our industry, in its different flavors (type of financing institution and size), that enables this economic growth.

As the world will need time to recover from the impact of the global pandemic, we have a unique opportunity to tap into this message and overall purpose of helping restart the economy. This means looking at the world through a different lens, engaging in new thinking to turn our attention to focus on the health and well-being of people.

For example, supply chain and new asset classes focused on sanitization or health screening will most likely have a tailwind coming out of the crisis. Are we taking the time to look at the whole picture and the impact we can have as an industry?

Let us challenge our thinking on how we pull this thought process of purpose through the businesses we finance and the causes they support. We are a piece of a much larger global puzzle. However, if we start from the foundation of the *why* of what we do, we believe it will give us the opportunity to attract diverse and emerging talent, which will further push our thinking on innovation and how we grow and adapt our industry.

EVOLUTION OR REVOLUTION?

The question remains: What is the best way for the equipment finance industry to access true innovation? Will we gradually evolve as business environment elements change and require a response? Or will we experience a revolution triggered by individual company choices or market variables that force this upon us? There is not one answer that is sufficient to cover our industry. If we look to history, those who lean into innovation are the ones that create opportunity for their companies.

There are also plenty of examples of innovations that were dismissed or discounted and that ultimately became a company's downfall. Think of how Kodak could have continued to be a dominant player in the photo industry had it only embraced digital photography, which was invented in its own laboratories, or how Microsoft was able to return to relevance as it pivoted to embrace the emergence of the internet, and how it continues to innovate with collaboration and cloud-based technology.

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We need to be open to embracing new ideas and looking outside of our industry to see how innovation is impacting other aspects of finance and banking.

The challenge for us is that we need to be looking at our own organizations and our industry as a whole to see where we could push innovation forward. This starts with the willingness to challenge our assumptions and unconscious biases that limit us from tapping into the business model and technology innovation that is around us.

We need to be open to embracing new ideas and looking outside of our industry to see how innovation is impacting other aspects of finance and banking. This would enable us to see what can be pulled into our industry to drive better customer experience and increase the overall efficiency of our operations.

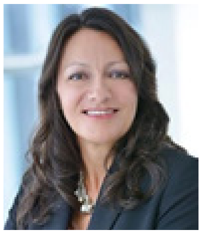
We will not get there in one big push toward an innovation initiative. However, if we start with a willingness to innovate and embrace new ideas, we will begin to see real impact. It will change the way we help drive global economic recovery growth. ■

ENDNOTES

1. The Technology Innovation Leadership Series meeting on March 10, 2020, included the following: Bill Choi, ELFA; Katie Emmel, IDS|Asset Finance Technology; Randy Haug, LTi Technology Solutions; Joe Leonard, Oakmont Capital Services; Dan Nelson, Tamarack Consulting; Ralph Petta, ELFA; Deb Rueben, TomorrowZone; Hugh Swandel, Meridian OneCap Credit Group; Scott Thacker, Ivory Consulting Corp.; and Bill Verhelle, Innovation Finance.

2. https://hbr.org/2012/10/kill-your-business-model-befor.html.

3. https://en.wikipedia.org/wiki/Hackathon.



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As chief operating officer, Katie Emmel is responsible for IDS global product management, professional services and support with focus on customer success. With more than 30 years of experience at IDS, she is a proven leader and instrumental member of the IDS executive team. Prior to her appointment as COO, Ms. Emmel was senior vice president of product management and held several key positions at IDS. She serves on the Foundation's board of trustees and on its Research and Development Committee, and recently served on ELFA's Operations and Technology Committee. Ms. Emmel's career began as a software engineer with IDS and she thus was part of growing the company from a startup to its position today in the equipment finance industry. She holds a computer science degree from the Alexandria (Minnesota) Technical College. IDS is headquartered in Minneapolis, Minnesota.

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