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The Effect of Borrower Information Sharing on Delinquencies: Evidence from the US Lending Market

By Andrew Sutherland

When a credit lender accesses a credit report to evaluate a contract application, it relies on previous information about the applicant's past performance. So does information sharing affect the frequency and severity of delinquencies? This study based on data from PayNet explores the ties between information sharing and payment performance.

Use of Social Media by Captive Finance Companies

By James M. Johnson, PhD, and Susan Carol

While there are great disparities in social media usage between parent companies and their subsidiaries, research is showing that gap will close in the next few years. Opportunities abound in business development, branding, recruiting, research, news monitoring, product marketing, and customer relations management.

The Future of Financing Advanced Energy Efficient Building Equipment

By Kerry Cebul and Natalie Volpe

Lessors and other institutional investors have been hesitant to enter the commercial building energy efficiency market. What will it take for secondary markets to develop within the efficiency sector? This article looks at both existing and emerging equipment types in this market and emerging financing models.

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Social media is a term to label the various interactive channels online that enable people to discuss topics of their choice. In many organizations, it is an opportunity for dynamic business-to-business communication if used appropriately and thoughtfully. It also presents the potential for negativity if not managed effectively.

In 2013, this journal published the article "The Evolution of Social Media in Equipment Finance," by James M. Johnson and Suzanne E. Henry (Winter 2013). Its focus was on utilization of social media by banks and their leasing subsidiaries. A major finding was that use of social media is far more prevalent in banks than in their leasing subsidiaries.

This article will extend the 2013 study by addressing the current state of social media usage by captive financing companies and their parent organizations to determine whether there are similarities or differences between these distinct types of companies. The captive data is based on new research and phone interviews conducted in 2014, as well as the authors' review of online channels used by the equipment leasing and finance industry. It reflects and compares findings in past research to current findings and then points to potential future plans in social media.

Because the use of social media is still in its early stages, there is reason to want to know if bank leasing companies are typical of financial services subsidiaries or if they are an exception. This study answers that question.

BACKGROUND

The authors and many of our sources for this article expect that in the near future social media will be taken for granted and used in the same ubiquitous way business executives embrace web browsers for research and email for correspondence. There are many ways to use social media to benefit a number of business areas.

So far, the opportunities—in business development, branding, recruiting, research, news monitoring, product marketing, and customer relations management—are still underutilized in the equipment financing industry. Some equipment leasing and finance companies have restricted their social media activity to marketing communications managers, which can limit employee involvement. Some limit social media contributions to the parent company's marketing division, which may significantly limit the messaging opportunities.

Most executives are aware there is a social media policy at some level, but it is not of much concern when they are not active personally. Yet they should be exploring more involvement. Companies that indicate they are not involved in social media are missing an important point: that company may be talked about whether it is involved in the conversation or not. It is better to be proactively involved to help shape the desired message.

WHY SOCIAL MEDIA CREATES AN OPPORTUNITY

The CEO, as chief storyteller in an organization that yearns for thought leadership, should be tweeting, blogging, or posting key messages in LinkedIn (or having someone do this for him or her). Why would the leader of a company avoid a channel that reaches millions of potential new contacts for business interaction? The CEO does not need to be the engagement individual, but should make this a priority of the company to message and help control what is being said about them.

Most users of LinkedIn are well educated and from the ages of 39 to 49, thus in the prime career-rising years, according to BI Intelligence, a research service owned by Business Insider. LinkedIn, of course, is just one social media channel, but it has been a good starting point for the industry. While originally considered a tool for job seekers and recruiters, LinkedIn has evolved into an online networking resource for businesses and professionals in a broader sense.

Is there a value to having employees socially engaged if they are educated and prepared to navigate these channels? This was addressed in a blog published in the Equipment Finance Advisor by R.J. Grimshaw, CEO and president of UniFi, which was recently rebranded from bank lessor Ervin Equipment Finance, with a big splash on Twitter. He has more than 2,000 Twitter followers, albeit some may be fellow hockey fans, as Grimshaw allows his personality to emerge—the best practice in social media. Some mix of personal and business is considered appropriate, but most company social media policies will advise against participating in online discussions that would be viewed as inappropriate socially or professionally if the meeting were offline.

Sales personnel can be cultivating relationships and monitoring the topics their peers and prospects are discussing. What is being said about the salesperson's products or services? What is being said about competitor offerings? Sales personnel are well suited to contribute to the conversations and help shape the dialog.

Human resources executives can identify new talent in the same channel by reviewing profiles and work histories as well as the way a LinkedIn member presents online. Human resources personnel can also cultivate community interests in Facebook, a channel with more women users than men.

Resources must be applied to create a cross-functioning team approach. A social media policy needs to be adopted, widely understood, and embraced at every level – with a comprehensive strategy in place. Training will be necessary to ensure everyone is comfortable, has appropriate settings established, and understands the protocol of the channel and the guidelines of the company. Social media can be viewed as part of the firm's overall marketing program to ensure a consistent message and benefit from the power of others also sharing the message or story.

SOCIAL MEDIA USAGE BY PARENT COMPANIES AND THEIR SUBSIDIARIES

At many captive and bank leasing organizations, social media is relegated to the parent operations, and financing executives are missing opportunities to introduce themselves to new contacts. Moreover, they are leaving the online door open for negative commentary that they will not be able to readily address because they are not present and have no community of supporters. Most of the captives that the authors analyzed have social media links on their website (those that have one) that are linked to the parent company's social media sites, making the captive even less identifiable.

This dependence on the parent causes captives to miss out on new ways to serve their customers. The captive is a sales tool for the vendor, a fact that has been well understood for years, per the quote below from a 2008 edition of this journal.

> True captive leasing began as successful manufacturers came to realize that their own brand name had value that could be extended beyond the physical product itself. … Some major corporations developed their own finance organizations. These established brand name organizations with loan financing and leasing plans had a built-in perception of credibility and trustworthy practices. (Allan Essenfeld, "A Perspective on Captive Leasing: Where It Has Been, Where It Could Go," *Journal of Equipment Lease Financing*, Winter 2008)

This extended role as a brand builder should also be developed in new communications channels that reach a desired target audience. Social media channels have a growing audience to justify consideration. As of the end of 2013, there were more than 500 million people on Twitter, more than 150 million on LinkedIn, and some 1 billion on Google+, Facebook, and YouTube. Access to these channels is built into many of the smart mobile devices being purchased, such that mobility is also contributing to ongoing growth.

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COMPARING SOCIAL MEDIA STUDIES

Four years ago when the Equipment Leasing & Finance

Other sources—senior communications and marketing executives of captives or banks — find social media efforts challenged by parent constraints, such as limited resources, risks of criticism and the unknown benefits of putting energy in this direction.

Foundation commissioned a study on social media, it was reported that there was much reluctance to become involved in using social media because the executives contacted did not see a potential benefit or know how a return on this investment would be measured, and there was fear of stimulating negativity or not having enough resources to make a full commitment. (The 2010 study, by Four Leaf PR, is titled *Social Networking for the Equipment Finance Industry*.)

In 2013, additional study of social media usage by independents, banks, and bank leasing subsidiaries revealed that only 15% to 30% of bank subsidiaries used any of the most common social media—YouTube, LinkedIn, Twitter and Facebook. Yet, 60% to 100% utilization rates were recorded by their parent banks.

In 2014, research was expanded to include not only banks and their subsidiaries but also manufacturers and their captives. The research was organized so that it could be compared in part to the 2013 study on banks and their leasing subsidiaries. It was also augmented with reviews of various companies' social media sites and phone interviews with executives responsible for social media strategy or content for these channels. (See Summary of Research Findings below.)

There was also a closer examination of two of the top originators of leasing volume (according to the Monitor 100):

- GE Capital and Caterpillar Financial (Cat Financial) are both demonstrating how captives and industrial financing companies can stimulate engagement online and integrate new social media with traditional media channels.
- GE Capital's business is based on relationships, and digital and social media offer new ways to connect with their customers, according to Lauren Belt, who heads digital communications for the equipment finance business at GE Capital. One key component of the social strategy is to utilize LinkedIn to connect with business contacts and demonstrate how the right financing can help businesses grow.

Belt said, "We work hard to ensure we have one clear company page, and provide our commercial team members premium access to LinkedIn along with other utilities to help them optimize their profiles, connect with contacts and get the most out of the tool."

Social media offers unparalleled ways of building relationships around a topic or interest area— and that is where GE Capital's commercial lending and leasing business platforms step in. Its 10-plus individual businesses seek out ways to engage with contacts at more granular levels regarding specific industry topics or interest areas, such as the leasing of construction equipment or healthcare equipment.

Several of GE Capital's commercial lending and leasing businesses have launched Twitter handles, such as @GELendLease, @GEFleetSvcs, and @GETruckFinance, along with other social media accounts to connect with interested parties and share more focused content that differs from traditional marketing tactics. "This is usually about our customer's growth and their success, not about leasing per se," Belt added.

The goal on social media is to connect and engage. Belt said, "We track our activities by account and measure the extent to which we are generating interest, prompting conversation and generating follow-up calls and meetings." A number of tools available today automate some of the work of posting and monitoring social media marketing. Large enterprises are investing in robust systems that also integrate with customer relationship management systems.

Kim Neible, vice president of Caterpillar Financial, who has responsibility for e-business, said the intent is to be personally and socially engaged with customers and employees. The company does not view social media just as a sales tool but rather as a means for developing relationships, including for recruitment. "We are coaching employees to use LinkedIn and we are making sure every individual profile is up to date," she added. Today Cat Financial is active on Facebook, LinkedIn, YouTube, and Twitter.

Other sources—senior communications and marketing executives of captives or banks — find social media efforts challenged by parent constraints, such as limited resources, risks of criticism and the unknown benefits of putting energy in this direction. The strongest interest is in LinkedIn—widely considered to be more oriented toward professionals than other social channels.

In 2010, when the Foundation conducted the abovementioned study of social media usage in the industry, Caterpillar was in the forefront of social media engagement. Marcia Colburn, marketing communications manager for Cat Financial, said the company realized that it needed to go where its customers are and that its contacts are not always the same as the parent's contacts. She also noted that education was needed internally to better understand the social media landscape. Cat Financial started by seeking relevant content that was appropriate for the various channels. "We're conscientious about the type and frequency of comments we post and we monitor for posts we need to respond to," she said.

Looking to the future, she said Cat Financial plans to more closely integrate its social media connections with Salesforce.com to track leads to sales. "It can be hard to determine how all of the social interactions lead to sales," she said. Social media strategies, however, focus on lead nurturing, which supports sales and moves companies higher in search engines.

LEASING INDUSTRY CHANNELS USED

The leasing industry as a whole has become more active in social media. The Equipment Leasing and Finance Association has more than 10,000 followers in its LinkedIn group, up 30% from last year, and more than 1,000 in Twitter. In addition, ELFA had 428 Facebook "likes," up 25% from last year. Various member companies submit video customer stories for one of the association's websites, and these are frequently channeled through YouTube. The ELFA's YouTube views are up to 11,391, a 32% increase from 2013.

While Facebook is considered to be more a consumer oriented channel, GE Capital's Commercial Distribution Finance business uses it because it finances dealers that sell directly to consumers. It also uses Facebook for posting stories about its community involvement, such as citizenship initiatives and employee volunteer activities at a food bank in one location. Belt says it is also a good recruiting tool. The business finds that prospective employees like to join companies that they see are giving back to their communities.

Banks also continue to lean on parents for social media guidance. For example, reliance on the parent is the case at Fifth Third Equipment Finance, according to president David Merrill. He realizes there is value in social media but uses it selectively: only where he sees benefits. He explained that marketing and IT resources are shared with the parent for the purpose of standardization. Lastly, he noted as others did that LinkedIn has been helpful in recruiting.

Financing companies that may have a White Clarke Group solution will see that this technology provider has created a pathway for clients to open a business case and manage a resolution of a complaint that starts with a social media comment in White Clarke's CALMS2 platform, which some equipment leasing and finance companies use for efficient business processing. The platform helps manage potentially damaging publicity and allows the finance company to build a process to manage interactions that may no longer start with a letter to the CEO.

Sources for this article predicted that in a year social media will be a greater part of their interaction with others. However, more use of social media will come sooner for ADP Dealer Services' new spinoff company, CDK Global, and its financing unit, CDK Financial Solutions. Gordon D. Scott, vice president of credit, said that his CDK Financial Solutions unit will be supporting some 400-plus CDK sales representatives and the company is looking to a social media strategy as a way of enriching and expanding the relationships with this internal sales force and the CDK retailer it serves. He views social media as a critical way to strengthen both internal and external customer communications.

Hitachi Capital America Corp. said its acquired company Hennessey Capital (now referred to as Hitachi Business Finance) has a social media strategy that may become the model for the whole company. William H. Besgen, the president, COO, and director, said that while he personally is a "private" person, he is open to new ideas for strategic communications.

The president and COO of that business finance unit, Michael A. Semanco, said he finds it rewarding to integrate traditional marketing and social media with the focus on building online connections that can develop into offline relationships and be a resource to clients. The unit's primary channels are LinkedIn and a blog. Previously, he said, it also used Twitter but struggled to keep it current, although Hitachi Business Finance may return to it at some future point. For guidelines and brand consistency, Semanco noted the company follows its parent's media policy.

SUMMARY OF RESEARCH FINDINGS

To facilitate comparison of captives with bank finance subsidiaries, the authors

The leasing industry as a whole has become more active in social media. The Equipment Leasing and Finance Association has more than 10,000 followers in its LinkedIn group, up 30% from last year, and more than 1,000 in Twitter.

Table 1. Use of Social Media by Captives and Their Parent Manufacturers—Percentage Using Each Channel

	YouTube	Twitter	LinkedIn	Facebook
Captive	36	21	43	21
Parent	93	100	93	93

Table 2. Usage Statistics for Each Channel by Captives and Their Parent Manufacturers

	YouTube average views	Twitter average followers	LinkedIn average followers	Facebook average likes
Captive	3,989	874	7,585	2,697
Parent	12,880,067	112,102	412,314	1,014,245

followed the same methodology as closely as possible. From the 2014 Monitor 100 special issue (vol. 41, no. 4), we identified all 14 captives on

> It is readily apparent that the use of social media channels is far more pervasive by manufacturers than their captives. Parent companies range from 93% to 100% usage of each channel.

the 100 list. For each captive and its parent company, we tabulated the percentage using the four social media channels utilized in the 2013 bank and bank subsidiary study—YouTube, Twitter, LinkedIn, and Facebook. The result of that compilation is shown in Table 1. It is readily apparent that the use of social media channels is far more pervasive by manufacturers than their captives. Parent companies range from 93% to 100% usage of each channel. However, between 21% and 43% ot of the captives have a channel presence—a very large disparity.

Again, to be consistent with the 2013 bank study, we compiled YouTube average views, Twitter and LinkedIn average followers, and Facebook likes for the captives and their parent companies.These results are shown in Table 2.

The data summarized in Table 2 clearly show the large difference in usage statistics between manufacturers and their captives. Having a presence on a channel and activity levels are highly disproportionate. For example, there are 2.6 times more parent companies using YouTube as their captives (93 divided by 36 in Table 1). However, the number of viewings by parent companies is 3,229 times the level of viewings for their captives (12,880,067 divided by 3,989 in Table 2).

How do captives compare to bank leasing subsidiaries? Table 3 permits a comparison of channel presence between captives and bank leasing subsidiaries. The captive statistics are taken from the current study, and bank subsidiary data is taken from the 2013 *Journal of Equipment Lease Financing* article described above.

The percentage using each channel is higher in all cases for captives, but not dramatically so. Neither captives nor bank subsidiaries approach a 50% presence in any of the four channels studied. Thus, utilization of social media channels is dramatically lower for captives and bank subsidiaries than for their parent companies.

The authors decided to compile some newer metrics for the captives and their parent companies, which were not captured in the 2013 bank study. For YouTube, we compiled the average number of subscribers. The average is 97 for captives and 34,594 for their parent companies. We then determined the average number of tweets on the Twitter social channel. The result is 1,113 tweets by captives and 6,285 by parent companies. In both cases, and consistent with our other findings, parent companies make considerably greater use of these social channels than their captives.

Finally, the authors looked at the websites of the captives for social media links. We clicked on each link to see what it linked to. These results are shown in Table 4.

The social media links found on the captive website homepage

Table 3. Comparison of Captive and Bank Leasing Subsidiaries—Percentage Using Each Channel

	YouTube	Twitter	LinkedIn	Facebook
Captive	36	21	43	21
Bank subsidiary	15	15	30	15

Table 4. Website Links to Social Media Channels—Percentage of Captives

	YouTube	Twitter	LinkedIn	Facebook
Links to social media	14	28	21	28
Link to captive social media	7	14	7	14
Link to parent social media	7	14	14	14

take the visitor as often to the social media channel of the parent as to the captive's social media channel. For example, 28% of captives have social media links on their website homepage for both Twitter and Facebook. However, when one clicks on those links, half the time the visitor lands at the Twitter or Facebook site of the parent. The other half of the time, the link will take the visitor to the social media site of the captive itself.

Comparing the second line in Table 4 (Links to captive social media) with the first line in Table 1 (percentage of captives using each channel), it is noted that 7% of captives using either Twitter or Facebook do not link to it on their homepage—the interested visitor has to find it on his or her own.

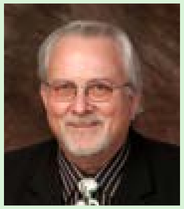
CONCLUSION

A Deloitte study of social media usage by CFOs in North America in 2014 suggested that companies have focused mostly on the risks so far rather than the opportunities, such as using social media to get customer feedback or foster internal collaboration. They say most of CFO attention has been on establishing policies for employees' use of social media, providing education on related risks, and managing the company's presence in key social media channels, according to Deloitte's second-quarter 2014 CFO Signals survey.

The greatest risk in social media is the risk to reputation. Unlike other forms of communication publicly shared, such as traditional press releases, social media channels have greater reach and immediacy, which can lead to increased damage when a mistake is made.

In the near future, when the benefits and risks are better understood within the equipment leasing and finance industry, there will be more productive engagement that helps to link equipment finance to the rest of the engaged B2B communities. Marcia Colburn of Caterpillar Finance makes a valid point: compare to similar companies outside of the industry to draw on good examples of social media usage. It is clear that the channels may change, but the method of communication is only going to grow. For those who are there, the rewards seem to outweigh the risks.

While there are great disparities in social media usage between parent and subsidiaries, based on our research today, we expect that gap will close in the next few years if not sooner. Our personal interviews with executives seem to suggest there is interest, and the Equipment Leasing and Finance Association is actively leading the way with its use of new media tactics to include distributing video and infographics through social media channels and establishing Twitter hashtags to encourage conversations around various association events. ELFA also is providing educational sessions on the subject at annual conventions and two years ago formed a communications committee.



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