

EQUIPMENT LEASING IN THE DIGITAL BUSINESS ERA

Sophisticated technology has the potential to transform the leasing sector

A New Era for Leasing

Businesses of all sizes in all industries are being transformed by digital technology. In new businesses like Uber and Airbnb, we see that technology is no longer just an enabler—it is an innovation driver. But even in established industries, we notice the way technology can remake companies. Think of it this way: if you were starting a bank today, would you have live tellers?

Gartner defines digital business as the creation of new business designs by blurring the digital and physical worlds.¹ Essentially, digital technology creates new kinds of products and services, new business models, and new, more efficient business processes. It's little wonder that 73% of large companies and 62% of smaller firms now have a digital business strategy.²

The equipment leasing sector is ripe for this type of transformation. The majority of leasing companies run on legacy systems that require significant amounts of manual work, especially when it comes to contract changes. State-of-the-art leasing software that is fully integrated on the front and back end eliminates manual processes, speeds up new-product creation and customer service, and provides a single view of the customer not possible with antiquated, siloed systems.

Given that the equipment finance market is expected to grow substantially in the near future³, this is an ideal time for leasing companies to invest in a system that will help them compete in the digital business era.

Leasing Sector Outlook

At an estimated \$903 billion, the equipment leasing and finance market is a significant contributor to capital formation in the US economy. In April, the Equipment Leasing & Finance Foundation (ELFF) predicted that investment in equipment and software will grow 5% this year.

Specifically, ELFF expects an overall expansion in the economy to encourage large and small business to increase capital spending this year, although at a slightly slower pace than in 2014. The foundation's Q2 update to the "2015 Equipment Leasing and Finance U.S. Economic Outlook" found that businesses appear poised to increase their credit demand thanks to steady economic growth and reduced uncertainty.⁴

At the beginning of the year, the Equipment Leasing and Finance Association (ELFA) noted that US businesses, nonprofits, and government agencies are expected to spend nearly \$1.5 trillion in capital goods or fixed business investments in 2015, financing a majority of those assets. It predicted that 62% of plant, equipment, and software expenditures will be financed through loans, leases, and lines of credit and that aircraft, trucks, and other industrial equipment will be among the higher growth types.⁵

¹ <http://www.forbes.com/sites/gartnergroup/2014/05/07/digital-business-is-everyones-business/>

² <http://www.informationweek.com/strategic-cio/executive-insights-and-innovation/2014-digital-business-survey-size-matters/d/d-id/1278896>

³ <http://www.equipmentfa.com/news/4167/elff-forecasts-5-growth-in-equipment-software-investment-in-2015>

⁴ <http://www.equipmentfa.com/news/4167/elff-forecasts-5-growth-in-equipment-software-investment-in-2015>

⁵ <http://www.equipmentfinanceadvantage.org/rsrscs/articles/10trends.cfm>

Equipment Finance Volume (in Billions)



Source: ELFF

Leasing Sector Challenges

Leasing companies with older systems are finding it difficult to compete for this growing market share. Their paper-based or legacy data systems result in slow and/or poor customer service, an inability to have a single view of the customer, and an inability to quickly adapt to changing market conditions.

To deliver the type of customer experience and operational efficiency expected today, leasing companies need to invest in advanced digital technologies, including a reliable, integrated back-end processing system. Yet a 2014 study done across multiple companies in the equipment finance industry in partnership with ELFA found that the current focus is on front-end lease/loan systems designed to deliver a better customer experience.⁶

Other significant findings from the survey include:

1. Although 94% of leasing executives see digital transformation as an opportunity, an estimated 90% of their technology budget goes toward maintaining legacy back-end systems.
2. 60% of customer dissatisfaction sources originate in the back office.
3. 10% to 20% of call center volumes result from execution issues in the back office.
4. Only 30% of leasing executives feel their operational processes are able to quickly adapt to changing market conditions.

In this period of increased finance regulation, shrinking margins due to low interest rates, and customer demand for a greater amount of self-service, digitization of manual processes and improved system integration are the levers needed to reduce operating costs, improve productivity, and enable new products and programs.

⁶ Business Technology Performance Index 2014/15, ELFA and Capgemini

Ideal System Requirements

A solution aimed at bringing an equipment leasing business into the digital-business era must be comprehensive, incorporating a high level of support for key business processes and contract changes, a framework for defining dealer programs, a strong financial mathematics engine, a robust pricing tool, and a sophisticated lease accounting engine.

Operations. Look for a system that includes modules for quote management, lease origination, and credit check; contract inception and finalization; contract classification; invoicing and payment processing; default contract processing; contract changes; end-of-term actions; inventory liquidation; and final settlement.

Master data management. The system should include business partner setup, product setup, pricing conditions setup, and financing products/programs definitions.

Dealer program definition. The system should provide a framework for defining dealer programs, both subvention (third-party subsidies) and participation (dealer incentives).

Financial mathematics. The system's financial mathematics engine should provide payment structure, payment structure variants, and cash flow capabilities. It should also provide various financing views (e.g., subsidy and participation), rate-per-thousand calculation, interim period calculation, interest calculation, and floating-rate-adjustment calculation.

Pricing. Look for a system that provides support for every facet of pricing, including pricing the asset before a deal is brokered, during the originations process, during the compliance phase, and during rescheduling or lease termination. The system should allow users to adjust the price in the financing document header, calculate termination values, calculate change processes for early terminations, provide enhancements to interest rate calculations, and calculate floating rates for leases.

Lease accounting. The system should be able to create future accounting entries (periodic and one-time) during contract inception and adjust the entries retrospectively when contract terms change. This is especially important for companies whose customers frequently request payment holidays or step payments.

Pre-configured contract changes. Look for common functions to be built into the software, allowing users to easily accommodate payment deferrals, change of ownership, evergreen leases, extensions and renewals, buyouts, termination with return, balloon-loan rollovers, and repossessions (voluntary or involuntary).

In addition to the specific functions above, a comprehensive leasing solution should be highly configurable and integrate well with both front- and back-end systems. The ability to adjust the system to fit the leasing company's existing processes results in fast integration and greater efficiencies.

The ability to connect to CRM systems (customer service, contract origination, contract validation, and change processes) and ERP systems (general ledger, accounts payable and receivable, accrual/deferral, and asset creation) greatly increases the value of the leasing solution.

When CRM, leasing, and ERP are thoroughly integrated, leasing customers can get answers to even complex questions quickly—usually with just one phone call. Rather than having to research data in multiple systems to determine the status of an asset or fleet, customer service personnel have the data they need to quickly handle customer questions and concerns. Contract changes can be made in hours rather than days, even if the contract involves thousands of assets.

SAP Leasing and Deployment Options

One solution that meets all of the functionality described above is SAP Leasing. As such, it has the ability to eliminate the manual systems that make it difficult to provide fast, comprehensive customer service and the data siloes that make it hard to efficiently merge leasing data with other business systems.

Interestingly, although a number of large equipment leasing companies have implemented SAP ERP (some also have SAP CRM), the majority of those do not use SAP Leasing to enhance their services. Even companies not currently using SAP ERP would be wise to consider implementing both SAP ERP and Leasing, given the potential efficiencies. Another option is integrating SAP Leasing with legacy, non-SAP ERP and CRM systems, which will create significant efficiencies, albeit at a higher implementation cost.

Small and mid-sized leasing companies may lack the funding necessary to implement both SAP ERP and SAP Leasing. These companies could benefit greatly from a subscription-based SAP Leasing offer via the cloud from a service provider.

We see a tremendous opportunity for such a service, which would allow even small leasing companies to embrace digital business and potentially expand their opportunities. Using industry best practices, the service provider could pre-configure SAP Leasing to allow users to quickly and easily perform complex calculations and eliminate manual processes. It could also provide access to SAP front-end and back-end systems, eliminating the need for a large up-front investment while giving users an end-to-end view of their business.

Summary

Projected growth in the equipment leasing sector means significant opportunities for companies able to eliminate manual processes, easily create new products, and provide top-notch customer service.

State-of-the-art leasing software such as SAP Leasing facilitates this move into the digital business era by providing support for key business processes and contract changes, a framework for defining dealer programs, a strong financial mathematics engine, a robust pricing tool, and a sophisticated lease accounting engine. Whether purchased outright or as a subscription from a cloud service provider, such a system provides the data and functionality leasing companies need to succeed and grow.

Arnab is a Director of SAP Customer Engagement at NTT DATA, Inc. and leads several key accounts in the Discrete Manufacturing vertical in North America. A recognized leader in the SAP Program Management space, *Arnab* led the implementation of the first – ever SAP Leasing project in North America. *Arnab* has also played a pioneering role in the sphere of Platform BPO solutions for Procurement operations. *Arnab* is a regular author of white papers in the SAP SCN micro-blogging site.

