

Serving the Self-Reliant Lessor: Trends in Leasing Software for 2008

Customers Seek Flexibility, Real-Time Information, Friendly Interface, to Drive the Complete Spectrum of Commercial Financing Decisions

By Stephen J. McCabe

Any service industry must react to the changing priorities of its customers, and nowhere is the race to provide technological solutions to meet these needs more competitive than in leasing software. Increasingly, leasing software customers are demanding technology solutions that empower them to access and manage financing data themselves, dissect and compare information, and do so as quickly and thoroughly as possible across a rapidly expanding range of commercial financing possibilities.

Leasing software developers worldwide report strong customer demand for products that integrate and span the complete spectrum of commercial financing and lending options. Customers are seeking technology products that give them the ability to meet their customers' financing needs whenever and wherever they might emerge—and in whatever financing format the customer might desire.

With a renewed focus on the bottom line, leasing software customers are insisting on a demonstrable ROI before they invest in a new leasing software product. Memories of some recent high-profile failed implementations and costly solutions that fell far short of expectations are keeping the pressure on many providers to show why their products are worth the price *before* they ask their customers to sign a contract. According to many leasing software experts, gone are the days of blind allegiance to technology for technology's sake. Instead, there is a renewed diligence in the air and a growing insistence on the part of customers for a demonstrable ROI before making a commitment.

And, while the IT team and CIO are fully involved in the product selection for any technological improvement, the signature on the bottom line is increasingly that of the CFO or even CEO of the company. Business executives are tapping the wisdom of their sales and marketing directors

to be assured that tangible, demonstrable improvements to profitability are the make-or-break factor in the decision-making process for any new solution.

A survey of some of the leaders in leasing software reveals these trends and the evolving needs behind them—as well as where they might lead the leasing software industry through 2008 and beyond.

Evolving Priorities Drive New Capabilities

Few in the industry know more about the current demands of leasing solution customers than Gerry Perham. Perham is vice president of product management for Minneapolis, Minnesota-based, International Decision Systems (IDS), one of the largest leasing software solution providers in the world.

“Our customers are demanding market-proven products, rather than custom deployments,” says Perham, who sees three priorities consistently from IDS customers.

“First, they want us to be their reliable, knowledgeable partner, someone on whom they can depend to mitigate the risks in their business. Second, they want us to support their optimum business process, particularly in providing both what their customers need and what they need to be profitable. And, finally, they want us to provide a solution that gives them the ability to adjust rapidly to a rapidly changing environment.”

According to Perham, these three priorities cannot be met by simply building and maintaining software—a concept echoed by many others within the leasing software industry.

Andrew Denton, director of London-based CHP Consulting, agrees that while his customers’ demands sound intuitive and simple, fulfilling them is anything but easy. Denton sees a growing demand for leasing software products that link organizations and enable workflow to “spill outside organizational boundaries and join organizations together.”

The benefits of this enhanced workflow are self-evident, according to Denton.

“Joining organizations together provides unbelievable excitement and huge opportunities for efficiencies in business process redesign and automation,” says Denton. “Bringing in introducers, counterparties, brokers, vendors, fleet managers, and customers can ensure that functionality is deployed straight to them.”

For Andrew Lea, vice president of marketing and corporate communications for NetSol McCue, the Burlingame, California-based US arm of NetSol Technologies, at least one aspect of his company’s customer expectations has not really changed.

“Our customers still want minimal risk of project failure. They’re looking for proven solutions,” says Lea.

To provide these proven solutions, Lea says his company is leveraging NetSol’s 550-person development team in Pakistan. “Our customers are saying one thing they like about LeasePak is that it has been proven to be reliable,” Lea says. “Stories of so-called ‘leading-edge solutions’ that have resulted in failed implementations have put our customers’ focus on reliability and stability.”

“The number one priority of our customers is ROI,” says David Taylor, vice president of leasing systems for Toronto-based APAK Systems, Inc., echoing a common refrain from industry leaders, “But the difference today is that we’re hearing this from 100 percent of the organizations, 100 percent of the time.”

APAK Systems, recently acquired by Constellation Software, Inc., one of Canada’s largest software companies, meets this demand with Asset™, a fully automated Web-enabled program that provides comprehensive financial solution for all types of leases and loans, throughout the spectrum of financing.

“Asset is ergonomically friendly to use, with plenty of power, and the capability for drilling down to a fine level of detail,” says Taylor.

For Jeff Van Slyke, vice president of sales and marketing for LeaseTeam, in Omaha, Nebraska, one word captures his customers' top priority: *efficiency*.

“Today, the margins are so slim that lessors are not going to succeed on spread alone,” he says. “The top companies we’re working with are really pushing their systems to be as efficient as possible.”

Van Slyke also notes that flexibility and the ease of extracting data are high on the list of features that LeaseTeam customers are seeking in his company's suite of products. They are designed to meet the complete spectrum of customer needs, from front end through back end, plus commercial loan management, for small- to medium-sized leasing companies.

“These customers want information. Historically, they’ve viewed their lease management system as a tool, but now they see it as a data gold mine—as a means of accessing their data and gaining a competitive advantage through it,” Van Slyke explains.

Mike Pennell concurs. As executive vice president of Seattle-based CapitalStream, a financing management software and consulting leader, he is hearing demands from his customers similar to those of Van Slyke's.

“The need of our customers to connect with their customers and be able to more efficiently drive their business continues to be a major emphasis,” Pennell says. CapitalStream's FinanceCenter™ front-office solution is built to provide precisely this connectivity, he says. Pennell also notes that vendor programs are investing the most in technology solutions, most notably using CapitalStream's products for greater access to information and simplicity in managing it.

“Their goal is to get a deal into the system quickly, have it approved quickly, get real-time status updates, and deliver funding,” he explains

Who's Making the Technology Decisions?

Leasing software companies have also noticed a subtle shift in the decision-making process by their customers. Once largely a decision made on the technological merits of the new product, system change is now being scrutinized much more thoroughly and by a much wider cross-section of stakeholders within the enterprise.

Gary Lowrey, commercial director of UK-based NetSolCQ, the European arm of NetSol Technologies, has seen the shift firsthand.

“While we used to see many decisions handled by the IT team, the decision to change or add a solution is increasingly being made today by the business users,” Lowrey says.

A renewed focus on ROI means that any solution must demonstrate its worth to the organization—before it ever gets purchased.

Ron Dolan, global vice president of sales, marketing, and product marketing for IDS, has also noticed increased involvement by the business and marketing side of his customer organizations when any solution is being evaluated.

“We’re happy to see more involvement from the business side, and not just the IT group,” Dolan admits. “We think it’s a mistake to assign all of the systems risk to the IT group. Business executives in finance, operations, and, increasingly, revenue generation all depend on systems to give them the power to help their companies grow profitably,” says Dolan.

Building consensus that the ROI will be there goes a long way toward setting the stage for a successful implementation. Madhu Natarajan, CEO of Philadelphia-based Odessa Systems, also sees growing involvement by the business side of the organizations seeking Odessa’s solutions. Natarajan notes that Odessa has won more than 90 percent of the RFPs to which it has responded, so he has had many opportunities to observe the inner workings of the decision-making process.

“Ultimately, the purse strings are held by the CFOs and the CEOs, but I think there’s a greater level of appreciation and respect for what the technology guys bring to the equation,” says

Natarajan. He feels that consensus on any leasing product means involving the IT department proactively and more integrally *before* the decision is made. “It’s an obvious impact that the CIOs and the CTOs of the world are starting to have on the solution-buying process.”

APAK’s Taylor agrees that a renewed focus on ROI means that he must sell his product to a different cast of decision makers.

“Nowadays, we’re selling to the CFO and the CEO,” Taylor notes. “What it all comes down to for them is the ability to deliver functionality into the business so that the customer gets flexibility, ease of use, hugely malleable financial products, and extremely flexible customer service—all features that surprise and make people happy when you prove you can do them.”

Sometimes the decision is too difficult to be made in-house. That’s when Jens Christian Vigulf, cofounder and marketing manager for Oslo-based BanqSoft ASA, which focuses on core software solutions for loan and leasing operations within the Nordic countries, has seen potential customers bring in outside help.

“More and more frequently, our customers are using external consultants, especially with a technical background,” says Vigulf. He has seen consultants write the RFI or RFP with the financing company and then remain active in an advisory role throughout the selection process.

Whatever the approach to the decision-making process, clearly it’s now recognized as the critical first step toward any solution installation or switch. CHP’s Denton understands and appreciates why the process involves new players.

“Our customers are looking for genuine business benefit these days. Just look at the Web sites of leasing companies today: they are leading with the technology they use. It’s not just a hidden, back-office thing anymore.”

Denton likes to sum up the new mentality reflected in the evolving decision-making process for leasing software—a focus on ROI and real business imperatives—with one of his favorite

mantras: “It [i.e., system change] is never a software project; it’s a business-change project that involves software.”

In Pursuit of the End-to-End Commercial Finance Solution

Business change driven by an organization’s changing internal needs has put the onus on leasing software companies to expand the conventional role of their solutions far beyond the confines of equipment leasing.

Dave Nash, vice president of professional services at IDS, has noticed a subtle shift in how enterprise-wide solutions are being viewed. Nash says that several years ago, there was a popular conception that obtaining enterprise-wide benefits like a single view of the customer, integrated reporting, or overall business intelligence required the implementation of a single, enterprise-wide system. But during the past few years in finance, leasing, and lending, Nash says two major developments have raised questions about that approach.

“First, there’s been the emergence of better, less expensive, more reliable technology and approaches for integrating seemingly disparate systems within an enterprise. Secondly, we’ve seen the well-documented and very public problems with major implementations of some enterprise systems that continue to experience major cost escalations, delays, and, in some cases, spectacular failures,” Nash explains.

So even if skepticism exists about how best to implement an enterprise-wide solution, there’s consensus that the evolution of commercial financing is moving forward—regardless of how it might end up being managed or administered.

NetSolCQ’s Lowrey agrees that any distinction between leasing and loans is getting increasingly hard to define. “They’re certainly blurred. If leasing is simply a product, it’s one within a range of financing products,” he says. “Or is it an industry in its own right? I don’t think it’s entirely clear,” says Lowrey.

NetSol McCue's Lea acknowledges that others have seen the trend and are seeking to institutionalize it. "Paul Larkin was visionary when he pushed the ELA [Equipment Leasing Association] to become the ELFA [Equipment Leasing and Finance Association], and it's a perfect reflection of the major trend within our industry," says Lea. "Most leasing operations now are at least as much about lending as they are about leasing, which is why we've made LeasePak a leasing *and* lending application."

And banks, the traditional domain of lending, are leading the way.

According to Dolan of IDS, the greatest demand for a true end-to-end commercial financing solution—one that will move seamlessly throughout the whole process from origination to disposition of leases, commercial loans, and virtually any other financing structure that a business might need—is coming from banks.

"Demands for linking systems are one symptom of market forces that are bigger than any one bank. The banks, due to competition from other financial service providers, need to manage *relationships* more than *transactions*," Dolan notes. He points out that a transaction-oriented bank is subject to becoming commoditized, to having to compete based on price alone. Obviously, it's a space almost no bank would want to inhabit.

"It's no secret that there can only be one 'cheapest option' in the market," explains Dolan, "But a bank that approaches the market from a relationship point of view can work with a customer from a 'bigger picture' standpoint. In order to do this better, that bank needs integration among its systems, because its people need to see the full picture of the relationship with each customer."

And providing that "full picture" is where the real value-add of a true end-to-end commercial financing system is strongest, Dolan feels—and is why IDS is focusing so intently on it.

"We have positioned our next-generation products to be able to support leasing, lending, and debt management, all within a single solution," says Dolan. The IDS origination solution works

for all financial products and provides the ability to integrate with many others to support the overall mission of the commercial lending market, he says.

But not all are quite so eager to jump on the bandwagon. In fact, some see potential opportunity in perhaps waiting for the pendulum to swing back toward their core competency.

“End-to-end solutions are where the industry is going, obviously,” admits LeaseTeam’s Van Slyke, “But, personally, I think [the move toward end-to-end solutions] is going to open up more opportunities in leasing, as current leasing players leave that narrow niche for a more generalized approach toward commercial financing. That’s going to create opportunities for those companies that stick with leasing solutions—niche players that can sell their expertise in leasing, especially around a particular type of equipment or asset.”

Others, such as Odessa’s Natarajan and CapitalStream’s Pennell, are perhaps more pragmatic.

“At the end of the day, financing is financing. Yes, there’s a discernable trend toward financing in general, with leasing being one facet of that,” says Natarajan.

“We specialize in commercial lending, period,” says Pennell. He is quick to admit, however, “We still do not have a program that has equipment finance and standard commercial lending on the same system. Leasing has always been a little sidestep; it’s never really gotten integrated in the way every other commercial form of financing has.”

Time will tell whether a true enterprise-wide solution ever emerges—or whether the current demand for it will even persist. For CHP Consulting’s Denton, taking a broader view of the real goals of the commercial finance industry might be valuable.

“Ours has become a solutions-based industry,” Denton explains. “We are no longer in a situation where the approach was ‘Leasing is your solution; now, tell me your problem.’” Denton sees a growing movement among technology providers toward focusing on results, not necessarily means.

“The understanding now is that a customer would like to get the use of an asset. How you get to that usage is less important than making sure your customer can get there.”

Moving Forward into 2008

The challenges facing leasing software companies continue to reflect the challenges faced by their customers: how to understand and react effectively to their needs for financing solutions. Any technology provider is inextricably bound to the evolution and growth of its customers, and some have identified the principles that ensure they are capable of meeting the challenges they will face in 2008 and beyond.

According to Nash of IDS, “The challenge is that all customers believe they are unique, and, while to a degree this is true, our customers have much more in common than not. Demonstrating a successful solution for them is critical to winning their allegiance.”

Nash often advises IDS customers to begin simple and obtain a quick win for the business to rally around, “rather than approach the project to deliver all the bells and whistles the business thinks it needs.”

“It has been our experience that our customers’ business drivers evolve over time—and that their technology systems should, too. The ‘big bang’ project is almost always an invitation to big cost overruns and missed expectations,” Nash notes.

“We need to do what has always worked: depend on the needs and expressed wishes of our user base to guide us as we enhance our product,” says NetSol McCue’s Lea. “We have the benefit of working with some of the best people in the industry—our users—and they know even more than we do about what they need. By listening to them, we’ve never gone wrong.”

For Odessa’s Natarajan, recognizing and accepting the challenges of his industry is the first step toward assuming an even greater leadership role within it. “The biggest change that we’ve reacted to at Odessa has been *change* itself—the challenges of change and the dynamic, turbulent leasing market that we all work in today,” he says.

If change is a given for leasing software customers, managing it effectively is the critical differentiator for successful solution providers. CHP Consulting's Denton recognizes the critical role his company plays in this regard. "We need to be ready to challenge our customer where our experience says an architecture or business process is wrong," Denton says.

"I think we're practitioners within the asset finance market—and we just happen to have a software product." Sharing this applied wisdom as "practitioners" through the leading technologies of their solutions is a powerful and effective combination for their customers' success, according to Denton. "Our customers do a business change every five years; we do it every day of the year," he explains.

"We take the position that a programmer asks you, 'How,' a business analyst asks you 'What,' but a consultant asks you, 'Why?' As a consultant, our job is always to ask, 'Why?'"

CapitalStream's Pennell recognizes both how far the leasing software industry has come—and how far it has yet to go. "While we no longer have to evangelize the virtues of technology to our customers, they still have tremendous inefficiencies to be eliminated," he stresses.

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In addition to having written previous leasing software overviews for The Euromoney Yearbook, Stephen J. McCabe has written on asset-based lending, distressed debt, credit management strategies, financing training for sales professionals, and management techniques for today's leasing industry in recent issues of The ABF Journal, The Monitor, and ELT. McCabe is a writer for Susan Carol Associates, public relations specialists in equipment leasing and e-commerce (www.scapr.com).