Technology initiatives for business opportunities: Trends in leasing software for 2006

By Stephen J. McCabe, Susan Carol Associates

The challenges facing the leasing software industry through 2006 reflect an inherent paradox: the promise of new and emerging technologies is being tempered by residual scepticism caused by initial technology investments that fell far short of expectations.

Consequently, there is a renewed diligence in the air and, according to many leasing software experts, a growing willingness on their customers' part to wait for a demonstrable ROI before making a commitment.

Increasingly, many industry insiders note, decisions once made largely by IT teams or consultants are now being made by the CFO or the executive team. Some fairly high-profile technology implementation failures have many financial services companies convinced that technology is no longer the silver bullet that they may have been led to believe it was.

But how long can these companies afford to sit on the sidelines? The march of technological innovation continues at a breathtaking pace within the leasing software industry, and the current wait-and-see attitude is presenting substantial risks of its own.

How long can one remain a player without getting into the game? A rebounding global economy is driving increased demand for equipment – and, inevitably, efficient and effective financing for it.

A survey of some of the leaders in leasing software reveals both the common and disparate trends and challenges these companies are facing.

Business as the driver. Greg McIntosh, President of Burlington, Ontario-based Cyence International, agrees 100% that a sound ROI is increasingly the foundation for any technology decision. "An investment in technology has to be based on a solid business case that includes grass-roots buy-in from the business owners. Technology is the enabler, but it is the people and the to-be process that need to be included in the decision for such an investment." According to McIntosh, the days of technology investment for technology's sake are gone.

Justin Cooper concurs. He is Technical Director and co-founder of CHP Consulting, an international consulting firm that has been delivering services and systems to the asset and consumer finance industries worldwide for more than a decade.

Cooper sees several major trends driving his industry – all of which involve the need for technology to evolve in step with a dynamic business environment.

"Technology should always act as an *enabler* for the business to expand, grow and evolve," Cooper says, and many businesses have found a way to make this happen. "Increasingly, financial institutions are putting IT people onto their board. Now, you have people making decisions who are both IT technicians *and* business people," says Cooper.

As Managing Director of Third Pillar Systems in New York City, Charlie Stuard has seen a similar trend towards a closer relationship between the IT team and the executive team among leasing software customers.

"The business people in a new systems implementation are much more savvy today, technology-wise. At the same time, the technology people at these companies are also much smarter today, business-wise," he explains. "It is sort of like presidential politics: everyone is moving toward the middle."

And the net effect of this renewed emphasis on leveraging such combined wisdom is a more educated consumer: "Together, they are much smarter buyers of technology. They know the questions to ask because they've been burned in the past," Stuard concludes.

Andrew Lea is Vice-President of Marketing and Corporate Communications for McCue Systems, Inc., a Northern California-based company that has been offering business solutions to the equipment leasing industry for over 30 years. Its flagship solution, LeasePak, is a full-lifecycle portfolio management system.

For Lea, today's healthy scepticism has its roots in business pragmatism.

"There has always been an interest on the part of large institutions to look at the ROI for *any* infrastructure investment. If anything has changed, it is that more and more companies are seeing that it is the needs of the business users that must be paramount in making a systems selection," Lea says. "And while IT has a vital role to play, those needs have to be balanced against the needs of the specific business drivers as seen from the business side."

Stuard agrees: "That is where the real value is added with any systems implementation: knowing what your key business drivers are and making sure your system solution can meet them."

For Scott Dunlap, Vice-President of Marketing for Avolent, Inc., an electronic bill presentation and payment applications developer in San Francisco, today's savvy customer is demanding more than just a single technological solution for each challenge faced.

"The leasing companies we are working with are really trying to solve a trifecta of issues with every technology initiative they have," he says. Business *is* the driver for his customers, but he has learned that they do not want to solve just a single problem.

"They want to put in something that is going to help grow their top line, help improve their margins, and build a stronger relationship with their customers. They do not want something that is only going to solve *one* of these issues; they want something that is going to solve all three," says Dunlap.

And do not underestimate the "herd mentality" that is still alive and well among lessors, advises Todd Wolf, CEO of Tabitha Software. Tabitha is a leading asset-management solutions provider for capital-asset-intensive industries, including equipment leasing, rental, manufacturing and distribution, based in Greensboro, North Carolina.

"The majority of leasing companies investing in software do so only after a large enough number of their peers have demonstrated realised benefits. In these cases, it becomes more of a necessity for them to simply keep up with the competition rather than creating an opportunity to get ahead," Wolf explains. "These types of companies are usually risk-averse and are motivated more by solving current crises rather than looking for future opportunity," Wolf says.

But not everyone in the herd is eager to rush after the latest technology, even after demonstrable benefits have been shown. Lea thinks that those sitting on the sidelines are probably doing so while they recuperate from a bad experience with a failed implementation. Technology's limitations and risks have made themselves painfully evident over the past five years, Lea notes.

"There has been kind of a sobering need to ask, 'What is the purpose of technology after all?'," Lea says. "To be able to do something new, better or different that's not correlated to key strategic business drivers is just *not* such a good idea – tempting, but not a good idea," Lea notes.

He has seen a "retrenchment in optimism that has yielded a new-found scepticism about technology for its own sake and about the Internet as a revolutionary new channel for originating business." According to Lea, leasing software buyers today are "hesitant to invest in a story that is an untested story".

John Harman is Business Development Manager of Oyster Bay Systems, Ltd, in Swansea, Wales, UK. Oyster Bay has provided a broad range of software systems and related services to its customers within the consumer and commercial finance sectors in the UK and beyond since 1983.

Harman notes that many companies he sees recognise business opportunity as the main driver behind the trend to improve technology, such as internal connectivity between offices and also between offices and the remote field force. He adds, "By extension, the need to grasp business opportunities is behind the desire to automate and to improve communications between the lessor and its intermediaries, suppliers and customers."

According to Mike Pennell, Vice-President of Product and Marketing for CapitalStream, a provider of front-office automation solutions for leasing and equipment financing, there is a logical reason for the current wait-and-see attitude among many leasing software buyers. "SAP and Oracle have introduced new lease servicing solutions that have caused the industry to say, 'Well, I'm not going to do anything until I see what happens.'

"These two major players, each with enormous resources, have entered the market at the same time that IDS, one of the leading US providers of lease servicing software, has come out and announced the replacement of its major product line with a new product line," he explains.

"It has created a huge dilemma in the industry. If you are a large leasing company, what would you buy? Whom do you upgrade with?," Pennell asks.

According to Pennell, even if lessors have a strategy to move to one of the newer products, they still cannot move forward. "Even if they make a directional decision, lessors are going to keep running their current applications until the new platforms are fully proven," he says.

The current impasse, he says, "limits innovation and efficiency in the short term as lessors are waiting to resolve their servicing systems before investing in newer front-office and asset-management solutions that offer the most immediate ROI".

He also sympathises with those who are currently shopping for applications: "I would not want to be a leasing company right now and have to decide what to do. There is no clear leader in the back-office space, and, even if they have made a decision, they are still waiting for everything they need," says Pennell.

Challenges in the marketplace. If this stagnating climate represents a challenge for those buying leasing software, those selling it are faced with their own set of obstacles. Overall, however, it is hard to complain too loudly about what amounts to growing-pains for many of the industry's most significant players.

According to CHP's Cooper, "Like last year, I'm glad to say that expansion remains our biggest challenge." He says that demand for CHP's unique blend of asset finance expertise and global software has been high for some time now. "We do not see any reduction in sight."

The APAK Group, PLC, a leading provider of core financial systems to major financial institutions worldwide since 1979, faces a similar challenge in meeting its customers' slowly emerging demands, according to Director David Taylor. "We have not yet fully emerged from the technology spending slowdown, but we are starting to see interest. And while it is not yet translating into chequebooks being opened, it is certainly moving in the right direction. The challenge is to keep up with the pace of this developing interest and seize the opportunities they present as they emerge."

Stuard is challenged by Third Pillar's growth needs, as well: "Our largest challenge currently is to find qualified technology professionals with a detailed knowledge of the leasing business," he says. "The people who have the combination of business skill and technology skills are doing quite well. They are quite busy, we have found."

Avolent's Dunlap agrees: "Our biggest challenge is growth. We grew more than 120% in 2004," he explains. "We are a fast upgrade to existing systems. Our customers want it, and they want it yesterday," he says. But he is quick to add, "I'm not complaining."

According to CapitalStream's Pennell, "One of the biggest challenges is the limited IT and business resources available in a leasing operation to implement the process and technology changes associated with a new system."

Pennell says that lessors are working hard just to keep up with their current day-to-day operations, and, while they see the value of these new systems, they lack the resources to make a commitment to a significant new project.

For McCue Systems, similar fallout from the previously mentioned stagnation is positively impacting that company's near-term prospects. According to Lea, "There's a lot of natural conservatism about adopting untested technology that has been to our benefit. With these mega-vendors' failed implementations, that conservatism is working even more in our favour."

And Lea also sees some sound fundamental trends that provide additional cause for optimism.

"The delayed investment and hesitancy to do infrastructure projects may be starting to ease from growth in the equipment sector itself," Lea explains. "As the demand for equipment finance grows, there will be a growing demand for products in this vertical," he says.

Philadelphia-based Odessa Technologies' CEO, Madhu Natarajan, sees a broader challenge in meeting the market's evolving need for effective solutions. "Maturing and increasingly competitive markets require companies to differentiate themselves," he explains. "What we are doing through LeaseWave is to present a robust, core system that can, by design, be readily modified, tinkered with and adapted to fit any business need and business environment and thereby truly address each customer's unique situation."

Odessa's LeaseWave solutions are entirely Web-based. "At Odessa, we view the Internet not simply as a mode or a means of communication, with bits and pieces that are Internet-enabled, but as an entire platform of operation," says Natarajan.

He notes that the market is "increasingly savvy and able to see past the traditional 'cookie-cutter' client-server models and truly understand the value-add and ROI that Internet-based systems hold."

With funding sources, vendors, lessees and others needing to interact meaningfully, Natarajan feels that leasing companies are a natural fit for the Internet. "Just as in almost every other major industry to date, the Internet has become an inevitable part of leasing," he concludes.

Innovation to meet dynamic demands. How are leasing software companies meeting their challenges? A broad spectrum of innovation is having a profound effect on meeting the ever-changing demands of their customers and the marketplace.

CHP's Cooper, for example, sees opportunity in his company's capability to empower its customers. "Because businesses really want to leverage their technology, we are working hard to give each business true ownership of its systems – especially in those areas where they can get most value from them," he says.

Cooper points to some key examples of CHP's innovation in bolstering its customers' command of their own systems. For example, he cites CHP's Business Rules Engine, which allows unlimited configuration options in CHP's workflow and decisioning areas; an enhanced Web Tier, which provides for the business to design and personalise its web delivery channels for ALFA's functionality; and improved Partner Management, where CHP is providing its customers more and better tools to extend the boundaries of their organisation into that of their business partners, as well as their own key customers.

Third Pillar is providing similar tools for its customers, especially those with significant regulatory compliance requirements, according to Stuard. "We are helping companies to do more data-gathering in the origination process in order to meet Basel II requirements. We are also leveraging the power of a rules engine and a workflow tool to make this process more adaptable over time," says Stuard.

Finally, he notes, "The deployment of services-oriented architecture has enabled different systems to more effectively communicate with each other without losing the benefits of best-in-class components."

According to Stuard, such additional capabilities were a significant value-add that came to companies that were working to ensure their compliance with the provisions of the Basel II Accord.

"Basel II requires that they gather the data anyway," Stuard explains "So, while it is all motherhood and apple pie and the right thing to do, the downside is that it can also be expensive."

Essentially, Stuard says, Third Pillar found a way to sweeten the compliance deal by leveraging these compliance requirements into significant value-adding services for their customers who were already committed to complying with Basel II.

Harman feels that regulatory compliance has always been a significant driver for customers of Oyster Bay Systems' products. "Risk mitigation as opposed to business opportunity becomes the main driver behind compliance issues relating to security, legislation and accountancy."

Harman notes that with his customers' help and advice, his product has recently been overhauled to include controls that satisfy specific Sarbanes-Oxley Act requirements.

APAK's David Taylor cites additional benefits for his customers who employ his tools for compliance with the Sarbanes-Oxley Act.

"Beyond just Sarbanes-Oxley compliance, full-asset management is invaluable to our customers because they can take information – really good information out of the manufacturing system – attach it to that asset, and wherever that asset moves, all that information moves with it," he explains.

But the real value-add comes from how APAK customers can use these asset data: "Access to all this information really allows the finance company to provide a service beyond just lending money."

According to Taylor, "There are now two major reasons to choose leasing today. The first has always been there: improved cash flow. But the second is new: leasing can now proactively facilitate the management of groups of assets. You can then build a whole suite of marketing tools around the asset management data."

Cyence sees opportunity beyond traditional lease-management applications for its software. McIntosh says his company has made significant inroads over the past year in enhancing their offering to cover non-asset-based financial instruments, including lines of credit, credit cards and traditional loans.

"This required the build-out of new features such as covenant management and tracking, collateral assignment and collateral tracking," says McIntosh.

McCue Systems is striving to introduce its LeasePak product to an even broader market. The company is now offering LeasePak in three different editions – Gold, Silver and Bronze – each keyed to different-sized enterprises and price points. "The package is easy to customise and add to," says Lea. "Customers now have a way to get LeasePak into their shop and have a system that is extremely scalable."

McCue is also offering LeasePak Bronze as an ASP-delivered solution for their customers who want to run it on one of McCue's hosting services." Lea notes that Provident Inventory Finance, in Sydney, Australia, has installed LeasePak Bronze ASP, and additional installations are scheduled.

Common priorities; uncommon solutions. Not surprisingly, leasing software providers find themselves encountering a common list of priorities from their customers. How they choose to meet these demands reveals the breadth and depth of their commitment to making their customers' needs their top priority. Some uncommon solutions are emerging in the process.

For Cyence, "Workflow and business-rule enforcement have always been a cornerstone to our offering, and we see this continuing, especially in a post-Basel II world," says McIntosh. CHP's Cooper adds a single customer view to McIntosh's short list.

"Single customer view has always been part of the [CHP] ALFA Systems vision, along with full asset-level support, but it is only now that businesses are really starting to leverage that information to provide improved customer satisfaction and identify key sales opportunities."

More generally, says Cooper, a single database across the finance enterprise allows for better management of information and decision-making.

Specifically, Cooper touts CHP's capabilities to create "corporate dashboards" for its customers. "For continual improvement, you have to be able to look at your process, review it, tweak it, and monitor it. If your workflow system can do all that, can actually give you good metrics, then you can continually improve your process. Remember, if you cannot measure it, you cannot manage it."

Cooper says that CHP's corporate dashboards are the perfect solution for any company that needs real-time access to its workflow. "One of the things that will really drive your business is if your system can run across your enterprise and give you a single source of information that's accurate and that's real-time," says Cooper. "Then you can really start to get a handle on how to move your business and get it pointed in the right direction."

Stuard says that "regulatory compliance and the movement toward a consistent technology stack, enterprise wide" are two of the most urgent priorities that Third Pillar is attempting to address for its customers. He notes that companies are looking to leverage mainstream, well-supported and best-in-class technologies as standards throughout their organisation rather than many small and one-off solutions.

This trend, as well as the availability of technologies that can get the job done, has led more and more companies to look at large-scale technology projects to replace systems that are no longer meeting their business needs, says Stuard.

APAK's Taylor sees similar priorities in his customer base: "They are demanding technologies that work," he says. "We have people at APAK who realise that success in today's market is all about owning the project from start to finish, being capable of implementing a big project, and making it work on time."

He notes that the software is 33% of the project, 33% is systems integration and 33% is managing those big projects. "All projects have a beginning and a middle and the successful ones also have an end," Taylor says.

Tabitha's Wolf agrees that a functional, comprehensive solution is the only one that will suffice for his company's customers. "I think there certainly is urgency around tackling specific business problems, but before moving forward, companies are looking at solutions in the context of the overall technology strategy to assure information flows easily," Wolf says.

"The most urgent need is consolidating information across all activities. The best way to do that is through workflow that actually collects the data at the point of processing and then collates it properly." He adds, "All of this disparate information has a tremendous amount of value once it is centralised and shared across the entire business."

According to Oyster Bay Systems' Harman, "Priorities are still set high for delivery of automated or part-automated underwriting systems, including online searches, plus the ability to exchange proposals with third parties and to open up the Web as a sales channel."

Harman notes that Oyster Bay customers now demand a robust and well-managed relationship with their IT systems provider, which includes sophisticated project management leading to cost controls, very strict timeframe controls and carefully crafted service level agreements.

Emerging opportunities beyond leasing. Innovation among leasing software companies is not limited to addressing challenges just within their industry. Many of them are looking beyond leasing for new markets and avenues for growth. For instance, CHP's Cooper sees his company looking for ways to exploit a capability that he says has always been present in CHP's products.

"ALFA has always been a truly multi-product 'asset finance' system; what the US industry is now looking for in a 'lease/loan' system has been within ALFA, as well as other financial products, since day one," he explains. "Leasing has not lost its fundamental benefits to customers, but lessors must evolve to offer a more flexible, rounded service, and ALFA is able to be right there with them," says Cooper.

He sees this as being one of the key strengths of any true finance enterprise system: offering end-to-end facilities across today's – and tomorrow's – finance products.

According to Cooper, leasing is perhaps best thought of as just one part of a continuum. "Leasing is not the only tool in the toolkit – at least it shouldn't be, if you are a proper, full-function financier. Your tool could be a loan, a lease, a receivables stream of some sort," he says.

For Cooper, making financing as easy as possible for the customer should always be the goal. "The customer does not want to have to figure out which works best. He wants to go to one financing supplier, deal with one invoice and one customer service process, and get the same paperwork out of the same system," says Cooper.

Tabitha's Wolf agrees. "Our core application can cater to asset management in *any* industry, regardless of how they are financed," he explains. "One of the benefits of developing TAMS for leasing first is that leasing extends across a wide range of asset categories, and there are specific processes for each of these vertical markets. Working with general equipment lessors makes it easier to extend our solution into the specific industries." Wolf reports that Tabitha has started developing suites of modules specific to other industries.

And while Third Pillar, APAK and Cyence all acknowledge a similar capability to move beyond leasing, at least one industry leader is sticking by its core competency.

"Oyster Bay is very much allied to the consumer and commercial finance sector, and we think it is essential that we do not dilute our commitment or concentration by working outside of the industry," says Harman.

"As our 'growth partners' have come from many different areas within the consumer and commercial finance industry, we have worked with clients to deliver a broad range of products – including personal loan, hire purchase, finance lease, operating lease, mortgage, deposit-taking and litigation funding," Harman explains.

A rebounding economy, but some lingering scepticism. Of course, the leasing industry is fundamentally integrated into the global economy, and leasing software is perhaps the most critical component of this integration. Consequently, the performance of the economy is going to have a profound impact on the success and viability of leasing software manufacturers.

Perhaps Avolent's Dunlap captures the current guardedly bullish mood of many software providers best when he states, "Things have turned around. Companies are looking to drive more business to e-business. They are willing to make the investment now. We are pretty bullish now."

McIntosh sees similar cause for optimism at Cyence. "Most of the customers we have spoken to are planning for considerable growth in the coming years and want to accomplish this growth by leveraging technology, not hiring more bodies," he reports.

"The realisation that the technology needs to be in place in advance of the anticipated growth – and not in reaction to it – is making a significant impact in improving the overall demand for this type of offering," he adds.

Cooper of CHP gains confidence from the confidence he sees in the market. "Markets are driven by confidence. That is the bottom line," he says. "And while the fundamentals are *pretty* good, what is important is that *people* are confident – it is a gut-feel thing. Confidence is up," he says.

"In the leasing and finance industry, the money supply is so good and interest rates are so low that, actually, people are seeking new opportunities to make new money," says Cooper.

He notes that his customers feel they "have to offer the value-added service, differentiation, service, maintenance, being quicker than the next guy to market with a new product: these are the needs that businesses want to spend their money on." Clearly for Cooper, this economic setting represents an opportunity for CHP.

Stuard of Third Pillar is somewhat more guarded in his assessment of the current economic climate. "In general, customers are more cautious about technology investments and are looking harder at return-on-investment numbers." He adds that some companies are investing strategically to support future growth initiatives for when economic activity picks up. Stuard feels that many recognise that they cannot wait indefinitely.

"Older technologies that are not as well constructed make it harder to add a whole new acquisition to that, because the owners are worried about it breaking just as it is," says Stuard. "This has been an impediment to consolidation within the industry. But you will see that change over the next five years as some of these implementations succeed."

"So while the business cases look strong, they are built on the necessity of swinging for the fences: replacing your core systems. Most companies do not do that unless they are sitting on a burning platform or unless the technology options are pretty stable," Stuard concludes.

The challenges facing the leasing software industry through 2006 reflect an inherent paradox: the promise of new and emerging technologies is being tempered by residual scepticism caused by initial technology investments that fell far short of their expectations.

"It is an interesting time. There are a large number of eyes on a small number of very key projects, particularly in the Oracle space, that are going to determine how quickly others are going to make the leap."

Natarajan of Odessa sees a "very promising outlook for the US market". He feels that leasing has shown itself to be robust and agile enough to withstand regulatory restrictions and economic downturns. "But increasing competition and pressure to maximise ROI translate into challenging and unprecedented demands on the underlying technology," he says.

He reports that Odessa is nevertheless expanding internationally, making inroads into South America, Africa and Asia. His logic is simple: "We are trying to balance our risks. The developing markets for leasing have a lot to offer," Natarajan says. "We certainly feel very bullish about our strategy both in the US and abroad."

For McCue's Lea, demand for equipment will soon mean a demand for financing: "We see an expanding demand for equipment itself, and that is going to translate into opportunity," he says.

"The leasing software industry is obviously going through changes," says Tabitha's Wolf. "Customers are focused on understanding their overall needs and how the next generation of software will satisfy them. As a result, they will probably continue to make the most of their earlier investments until the next generation of solutions is more tangible," Wolf says.

He predicts they will likely remain cautious when spending their software budgets on large-scale projects.

"In the interim, we will see a continued demand for some of the niche solutions that solve specific business needs. These solutions become more attractive now that they have been validated by mainstream customers who have realised tangible benefits. Tabitha is experiencing that first hand," Wolf says.

Oyster Bay Systems' Harman has a somewhat different perspective. "Euro zone and international business opportunities are prompting us to re-evaluate our position within the UK and overseas marketplaces," he reports. "The current spate of UK mergers and acquisitions seems to mainly affect middle-tier companies at present, and we have seen some expected, and some unexpected, movements within our client base."

Harman continues, "We believe, however, that these trends are circular, and our strategy is to be in a position where we can continue to support the start-up organisation, the growing organisation, and the mainstream 'establishment' organisation through a range of value-for-money solutions."

Stephen J. McCabe wrote last year's overview, "Global Opportunities, Worldwide Challenges: Current Trends in Leasing Software for 2005," for the *World Leasing Yearbook 2005*. In addition to writing for Euromoney, he has written extensively on international leasing, credit management strategies, financing training for sales professionals and management techniques for today's leasing industry in recent issues of *The Monitor*, *North American Industry* and *ELT*. McCabe is a writer for Susan Carol Associates, public relations specialists in equipment leasing and e-commerce (www.scapr.com).