

# The ROA Way

*The next generation of leasing software will focus on assets.*

**By Tom Dawson**

**M**any in the industry are talking about what the next big advancement in software systems for lessors will be. Some believe that this next step may never be possible, while others say it's just around the corner. Before we can all agree we should at least have a good idea of what it should be, and this dialogue should be encouraging for all of us immersed in the equipment finance industry. This discussion means forward-thinking lessors and a few technology providers are beginning to share a vision, and that available technology is moving closer to fulfilling real-world business needs.

Lessors' traditional software systems have two major vulnerabilities: most are built to do one thing (handling contracts, for example, or enabling collections) extremely well, and they treat the leasing process as a linear progression from origination through disposition. In reality, we live in a world where some lessors report that up to 80 percent of deals don't go full term and often require adjustments. In addition market events

affecting asset value have a faster and more sweeping impact than ever, and customer expectations are at an all-time high. Today's systems must address those realities.

## **Toward the Ideal**

For the unique, dynamic world of equipment finance, what is the ideal system?

Michael J. Fleming, in the May

2005 *ELT*, asked some great questions about the real value of technology to ELA companies. These questions focused on what technology has (and has not) delivered to lessors in terms of productivity, transaction and interaction efficiency, and employee empowerment—helping us visualize an ideal system in a new way.

With that in mind, your ideal system enables you to:

- respond more quickly and effectively to real-world customer demands;
- puts the power of more information in the right hands within your organization, enabling decisions that reduce risk and improve profitability;
- Above all, it delivers meaningful flexibility to run your business the way you need and want to run it—for measurable efficiency and productivity gains, business growth, regulatory compliance, and reaction to change.

Let's be more specific: your ideal system is built to handle leases, loans, and all the variations of those financial products. It works logically, letting you treat contracts as contracts and assets as assets, with the information you track always unified, recon-

cilable, and within reach. How? The key is asset-centric functionality—and the result is the ability to track and improve return on asset (ROA), considered by many industry experts the purest measure of your efficiency. When today's technology helps you substantially improve efficiency and ROA, it delivers on its promise.

## Increased ROA

If we agree with the commonly held belief that ROA is a lessor's purest measure of efficiency, we can quickly see the benefits of being able to impact ROA more directly, in ways that have been unavailable with contract-based systems.

The ELA Survey of Industry Activity for recent years have shown an increase in industry average ROA, after several years of declines or flat performance. Although many economic factors are in play, a portion of this gain is due to increased focus on this powerful statistic. Lessors now see increasing ROA as a viable way to be more profitable and competitive—and many recognize that only an asset-centric system can deliver all the information they need to kick that door wide open.

It's one thing to be able to calculate ROA for a given time period: you divide one known number—net income—by another, the total value of all assets in your portfolio. It's an entirely different thing to identify the "whats and whys" that produce this important performance measure, and draw conclusions about improvements you can make in your business. For that, you clearly need to capture information at the level of the individual asset.

But there's also a fear factor here: who can afford to risk losing the traditional, contract-based informa-

## Two Ways of Looking at ROA

**By pure definition, ROA = Net Income/Total Assets for your business.**

**For practical application, consider it:**

1. A measurement of the performance of your *entire portfolio*—increased when your business gains efficiency.
2. A measurement of the performance of any *individual asset* or asset type—increased when you increase your financial return on that asset. (This requires asset-level information, enabling you to set more accurate residuals, price more effectively, and make other more informed, more profitable decisions.)

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tion and proven processes that have worked for years? If you currently book leases into one system, loans through another, and potentially run still other systems for different critical functions, won't pulling it all together involve serious functional tradeoffs? Our reliance on multiple systems, with the familiar work-arounds and dead ends, may be cumbersome, but we've managed, right?

A truly flexible asset-centric solution, with development driven by specific leasing industry needs, eliminates these detrimental tradeoffs. And it's no longer unrealistic.

## End-to-End Benefits

To understand the gains available with an end-to-end system that has built-in asset-centric functions throughout, we must look at how asset-centric systems handle everyday activities. There are meaningful differ-

ences throughout the business cycle, including credit approval, pricing the deal, invoicing, payment application, mid-term adjustments, collections, and more. Most relate to capturing and applying information not available with a traditional contract-based system.

When you quote a lease using only contract-related information, for example, you rely on a considerable amount of "art" (often including memory and intuition), together with the "science" (hard data) you do have available. One big problem is that standard business rules don't take the equipment you are leasing into full account. In other words, you probably don't know accurate residual values for that equipment, and you may not have access to other key information that would enable you to price the deal for maximum profitability. For any contract covering multiple assets and asset types, this is extremely

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limiting. What if your system was capable of capturing the information you use to apply "art" today—and making it accessible to all users as part of the "science" of your equipment finance business?

In addition, when you book the deal into a contract-based system, you

set a very limited stage for handling the changes you deal with every day. Only through time-consuming, costly work-arounds and "side processes" will you be able to do things like:

- establish different billing schedules for different assets
- accurately calculate and remit tax

for multiple assets in different locations

- accurately bill different locations under a single, multi-asset contract
- provide invoices with the asset-level details your customers demand.

An asset-centric system makes all this possible, and that's only some of what you gain in pricing and invoicing flexibility. You can invoice the same way you did using your contract-based system, for example, while also capturing asset-level information that is beneficial to you and your customers.

Most mid-term adjustments are truly challenging in a contract-based system. How much easier would they be if you could clone and split assets whenever you need to? How much

more quickly could you react to early terminations and other changes when each asset is tied to its own billing schedule? How much faster could you provide a requested buyout quote for an individual asset?

## Making It Pay

Concerns about functional tradeoffs and skepticism about the ability to achieve and report a positive ROI within an acceptable timeframe have clearly held many lessors back from deploying new, more powerful lease/loan accounting systems. With asset-centricity, however, when you have to “show the money,” you are better equipped to do it than ever before. There’s no reliance on “soft” benefits to do so: increasing ROA translates directly into better ROE (plus virtually every other measure of your success), and your staff truly has the ability to make the investment pay off this way.

With an asset-centric system you have the technology tools to:

- Track true ROA for individual assets and different asset types, in real time, so you can make smarter decisions and put a hard dollar value on their impact.
- Replace multiple systems that each do “one thing well,” as you also eliminate paper processes and redundant data entry.
- Support new business, even stepping outside your primary sectors when a great opportunity arises.
- Streamline and improve the accuracy of your reporting with additional detail, reducing the costs of regulatory compliance and tax calculation/remittance.
- Increase customer satisfaction, confidence, retention and referrals by delivering the detailed

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information customers need, reducing your costs for acquiring business.

Leveraging improvements in your technology tools, you can share a growth initiative with your entire organization, identifying three focus activities certain to have a positive impact on your business:

- Capture the detailed information you can use to make better decisions and work more efficiently
- Measure the impact of your changes, leveraging new reporting options
- Maximize the positive impact of your knowledge and more informed decisions by serving customers better, and by pursuing new business, in-demand products, and competitive programs.

## Capitalizing

Your vision of what an ideal software system needs to do for your business may change depending on your pressing problem of the day or the hour. However, some industry pressures and recurring challenges are nearly universal to lessors. Faced with ever-increasing regulatory requirements, rising customer demands for both service and information, and the need to make better decisions more quickly, many are focused on the promise of

an asset-centric system.

A recent article in CFO magazine identified key leaps made in systems designed to enable customer self-service. As these systems have advanced, their ROI has become much more attractive—business owners no longer have to trade one set of problems for another. The author, John Edwards, points out that for the customer, “small gains in convenience are usually the advances most appreciated,” citing successful applications like a ticketing/seat-change kiosk at an airport. Not surprisingly, it’s all about delivering something the customer really wants, and backing that up with robust, reliable technology.

The same is true for lease/loan accounting. You can consider, “What have we done to improve my customers’ experience and encourage self-service?” Further, you can successfully look to technology today to make these advances. In fact, the asset-specific detail (location, status, billing schedule, etc.) you can provide customers from your “ideal” system will make a customer self-service initiative, such as enabling online invoicing and payment, more practical and likely to succeed.

What has changed? Well, our technological capabilities and almost everything else—except the value of reacting quickly, basing decisions on reliable information, and developing new ways to make customers happy. Our ideal system must support these fundamentals. Equally important, it must leave the things that do work well for our businesses intact. At last, all this is coming together—and yet it’s not too late to influence the extended development of the systems you really need. **ELT**

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