

# Leveraging Asset Information for Greater Profits:

## Five Opportunities to Improve Your ROA with Asset-Centric Software

*Front-end efficiency is just part of your profitability picture.*

By Tom Dawson

**F**or many years, equipment finance companies have focused most of their “re-engineering” energies and technology resources on streamlining the front-end of the leasing cycle. If you have made a major IT investment within the last few years, chances are it addressed this part of the process. And rightly so. There are very clear benefits to improving operational efficiency in the stages from origination through booking.

**The more assets you track at this level, the more useful information you will have about individual asset performance, residuals, and many other areas that may lead you to make better, more educated and profitable business decisions.**

If properly implemented and applied, an efficient, powerful front-end software solution can help a lessor significantly boost origination capacity and throughput. Such a system may also improve data integrity throughout your operation, make your staff much more productive, and improve customer satisfaction through faster deal approvals and greater responsiveness.

In addition, today’s best front-end solutions can be integrated seamlessly with the leading back-office applications and other resources, so that their use contributes to the efficiency of your entire business. You can now match a powerful front-end solution to an equally strong and flexible back-office solution, achieving the greatest possible

agility and efficiency in your operation.

What if you are now achieving positive results from such front-end improvements, but still driving hard toward greater competitiveness, flexibility, and profits? What’s next? Is there another area of your business where better technology can make such a substantial positive difference? If you still see bottlenecks in your processes, might a more powerful back-office solution resolve them?

The benefits of *ready access to complete detailed information about all the assets in your portfolio* can be highly significant now and over time. Some advanced lease/loan accounting software solutions available to lessors today contain the keys to tapping into

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this important source of added profit.

This article focuses on five important ways you can use asset-level information to increase ROA—an important measure of your efficiency and profitability. These five opportunities represent methods for impacting the four primary ways a leasing company earns revenue and profit: the spread, residuals on equipment, tax benefits, and fees.

### A Not-So-Obvious Opportunity

Whereas credit managers and other leasing professionals are likely to be vocal about their technology requirements and opportunities, those who work on the asset management side of the business are usually much less so. Although in recent years asset managers have begun to get their due as an integral part of the core functioning of leasing companies, their roles still are not typically viewed as a substantial source of revenue or incremental business. It may well be time to look more closely at enhancing this part of the cycle in order to increase return on assets (ROA).

An important consideration for investing in a system that will improve your asset tracking and management is that the benefits are cumulative, and will increase over time. The more assets you track at this level, the more useful information you will have about individual asset performance, residuals, and many other areas that may lead you to make a

range of better, more educated and profitable business decisions.

It has become common business philosophy to realize not just that “information is power,” but that the more competitive (and/or commoditized) an industry becomes, the more valuable high-quality, specific information becomes. Simply stated, the more you know about the assets in your portfolio, the greater your ability to make a range of adjustments and decisions to gain a competitive edge.

### Opportunity 1:

#### Getting A Handle on True ROA

Asset-centric systems have the designed-in capability to accurately track all income and expenses associated with every financed asset. The posting of each income or expense item has an immediately visible impact on the earnings shown in the corresponding agreement, and makes it possible for you to track and report true ROA in real time, at an individual asset level if you choose.

Although this type of information on your assets may have been available to you previously through a contract-based system extended by several spreadsheets or other tracking documents, it has probably never been consolidated or easy to locate. Once you can easily access an accurate view of the many factors that determine a leased asset's profitability, you can

address the rates, business processes, and other factors that limit your gains when you lease that particular asset.

Just as you may have already done in the origination-through-booking stages, you can achieve direct time and cost savings on the back-end. As you eliminate redundant data entry, cut out other wasted steps, and report more results with greater efficiency, you become more profitable and competitive.

### Opportunity 2:

#### Adjusting Rates and Options Based on Asset Information

As your asset knowledge builds, you gain a much firmer grip on the ultimate average return for each individual asset and each asset type. You discern patterns and trends. Resulting adjustments to lease rates, end-of-term options, marketing strategies, and other factors can counteract external factors that may hold back your growth.

For example, many U.S. lessors have experienced a downward trend in their spreads in recent years, with the long series of federal interest rate decreases accompanied by a high credit supply and increasing competition. Let's consider a lessor whose concentration and business relationships lead to its having hundreds of units of both “Tractor ABC” and “Tractor XYZ” in the field, the majority on lease at an 8 percent rate.

Now consider that Tractor ABC is the much more popular and successful model, and therefore has a high residual (resale) value compared to that of Tractor XYZ, which never quite “took off” in the marketplace. With ready access to complete asset information, what adjustments should be made?

As this lessor gathers data on these assets, it may learn that his current rate of 8 percent no longer results in an acceptable return when leasing Tractor XYZ, due to its low residual value. He may then set and enter a “lease price factor” specific to Tractor XYZ, determining that it is necessary to charge 8.5

percent on unit to achieve an acceptable return. Conversely, for tractor ABC, it can immediately revise residual values throughout the asset-centric system to reflect the latest market conditions.

This lessor's spread could be increased immediately by "smarter pricing" of this type, which takes into account the true value and performance of a specific asset as well as the external conditions in the business environment. In both cases, this lessor is making adjustments likely to improve ROA.

Essentially, this moves you away from the practice of treating all your assets the same way, to introducing a refining factor in your process that helps improve profits at the individual asset level. In many ways this is similar to assessing customer records and credit risk. Just as you may not treat all customers the same way, you can treat assets according to their proven performance history.

### **Opportunity 3: Better Forecasting of Residuals**

With an asset-centric accounting system in place, you are much better equipped to track residual values of equipment as it comes off lease and, more importantly, forecast the residuals for equipment in the field or your inventory. This enables your asset management staff to watch trends such as unexpected increases or losses in value for your assets and, in turn, for re-pricing of future deals and improved planning to meet your revenue goals.

Many factors can impact the residual value of a given equipment type or model. For example, let's say that the very successful and reliable C-1 printer/copier is replaced in a major manufacturer's product line with the C-2 model. The C-2 immediately exhibits performance problems and high maintenance requirements in the field.

What happens to the residual values of these two models? Obviously, demand for remaining C-1's is likely to increase, and the residual will increase accordingly. But the C-2's reputation quickly begins to erode demand for this model, and its residual drops dramatically.

As a well-known historical example, imagine that you had hundreds of 1970s-era Ford Pintos on lease when it became public that the gas tank was highly susceptible to rupture (and, unfortunately, explosions) in low-speed collisions. You may have forecast the residual of a 3-year-old Pinto at \$1000, but you now know you'll be lucky to re-market them for scrap at \$200. This portion of your portfolio just lost 80 percent of its value!

In a Pinto-like situation today, if you are on an asset-centric system, you could immediately begin planning for this shortfall by re-calculating the residual value for every unit

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in the field or your inventory. You might also re-evaluate your approach to other Ford vehicle leases, setting lower residuals initially or a higher lease rate to compensate for the expected decline in value that comes with lost consumer confidence.

The benefits of accurate residual forecasting and tracking are substantial. This knowledge can lead to sound marketing strategies, such as offering only conditional sales—rather than true leases—for equipment with a high potential to lose value. For a vehicle that you know is at its maximum residual, you might embark on a strategy to offer lease buyouts, tradeoffs, or other deals enabling you to take advantage of that fact.

### Opportunity 4:

#### Achieving Greater End-of-Term Efficiency

Fourth, an asset-centric system makes it easier to set uniform end-of-lease schedules covering every asset, and ensure that no agreement is booked without clear-cut options at end-of-lease. This can eliminate missed invoices and payments, as well as producing faster post-term collections.

### Opportunity 5:

#### Consolidated Information Gets Leveraged, Where Far-Flung Information Got Lost

Finally, there are tremendous benefits to having a fully integrated, end-to-end system that replaces multiple independent spreadsheets or other means of

documenting asset-level information. You can eliminate manual steps here, just as you may have already done with an overhaul of your front-end operations. You may find that you no longer need to use certain cumbersome tracking applications, and that your back-office solution is now as flexible as your front-end solution.

### Too Much Flexibility?

There's no such thing as too much flexibility in equipment leasing. An asset-centric solution provides tremendous flexibility in managing your assets, without introducing undue complexity to your processing tasks and workflow. You can split agreements and “break off” assets with relative ease.

Not only is tracking a contract with three assets much easier, for example, but you can deal with different asset outcomes much more efficiently, as in:

- a) If one of the assets is stolen, you can enter and track information on the anticipated insurance payment, and automate write-off when that payment is received.
- b) If the second asset is sold by the lessee, you can be prompted automatically for collection.
- c) When the third asset comes off lease, you have numerous practical options, including creating multiple new assets in your system if you choose to “part out” the equipment.

All of this contributes to staff productivity and customer service, delivering clear value and helping your asset management staff contribute more to your bottom line.

## Making the Move

So, what if your equipment finance company has been on a contract-based system for some time? Won't it be troublesome and costly to convert to an asset-centric solution that enables you to leverage all the key information we've discussed in this article?

In terms of changes required from much of your critical staff and operations, the migration to an asset-centric system should create little, if any, resistance or problems. The people involved in entering and managing agreements on a day-to-day basis may find the change virtually seamless.

In fact, most staff members will quickly see the gain in doing so. Your overall customer service capabilities should be greatly enhanced. Now, when one of your customer requests asset-level information (such as locations of individual assets, P.O. numbers they have provided, specific sales and use tax information, etc.), that information is within easy reach.

Another consideration is that improving your asset management and other back-office efficiencies allows you to maximize the value of your front-end system. The time and effort expended entering information on the front-end can now pay off better when it comes to asset performance and disposition.

As with any other IT investment, it is critical to work with a supplier/partner that truly understands your business and can assist you in improving the performance of your portfolio. Migrating to an asset-centric system just might become the greatest forward step you've taken in profitability and competitiveness, since you may be a giant step ahead of others in adopting and leveraging its power. **ELT**

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