

Pro-Active Lease Management... Who Adds the Most Value?

With a pro-active approach, the lessor gets a jump on the "Price-Along" competition. With an array of alternative methods of asset-based finance available, the Lessee CFO will select the winner by determining which "lessor/partner" adds the most value.

By DANIEL R. SHOLEM

Every consumer food manufacturer puts a recipe on the box. Whether it is a salad recipe on a box of croutons or a cake recipe on a bag of flour, the manufacturer provides an extra measure of value included in the sale. Most even provide a toll-free telephone service to access expertise as the customer requires. Packaging product with service is also the path to success in the 21st Century Leasing Industry.

As internet based platforms, greater access to capital, equipment specialization and more sophisticated customers drive the equipment leasing industry to greater levels of competition, lessors also must add value to their product to succeed. Marginally reduced cost of funds or willingness to provide unique structures are no longer "the" keys to success. An extra measure of service differentiation must be coupled with the product to stand out in the lessor crowd.

Lessees' CFOs and Treasurers managing leased equipment have little time to spare. Whether they are working on quarterly reports, managing cash-flow issues, raising debt or establishing accounting procedures, the task of reviewing leased equipment on a schedule-by-schedule basis in a pro-active manner is not high on the daily "to-do" list. The customer may indeed see the value in a review of equipment under lease for current utilization, tax issues, long-term requirements, etc. However, this is a labor intensive, time-consuming project that often takes a back seat.

This hurdle is an extraordinary opportunity! Engaging the customer with a measure of value added service is precisely how a lessor gets noticed. With a high real and opportunity cost of ignoring issues surrounding leased equipment, most lessees will view a lessor in high regard that provides those pro-active services packaged with the lease transaction.

Most lessors' operations emphasize leasing sales. The traditional lessor "gets in" and "gets out" and fails to contact their customer until the end-of-lease or when the potential for new business pops up. Through a comprehensive, on-going evaluation of the customer's technology and economic requirements, the lessor provides a value added service that distinguishes them from others. This on-going process also creates inherent opportunities for new lease business. At the time the Lease Agreement is signed, establishing a quarterly meeting with the lessor to review on-going issues is a method of bringing these issues to light.

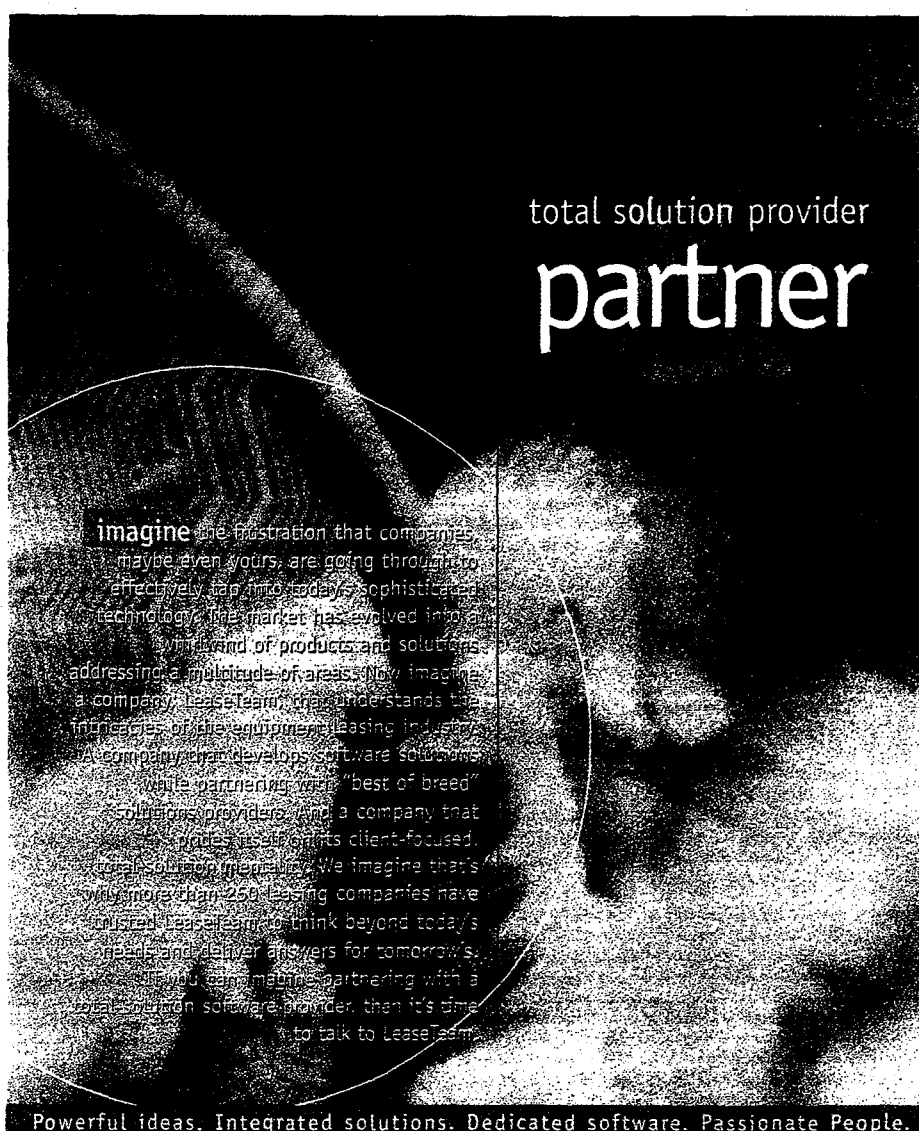
Traditional lessors build the expiration date out of stone. Certainly, an expiration date in an operating lease is required and should be matched to

the likely use of the equipment. However, everything from operations requirements, available technology, cash-flow requirements, balance sheet issues and personnel change during the term of a lease. Why not re-engineer the structure of the lease to meet those requirements at the time

those requirements change? The process, itself, will reflect the lessor's interest in serving the lessee as a customer. Also, the mid-term evaluation typically creates an opportunity for the lessor to improve its position in a particular lease schedule or on an overall portfolio basis.

For example, airlines address a hyper intensive market where fleet mix and route assignment is critical. Revenue management as measured per available seat mile is the key to success. As passenger traffic increases or decreases in a specific route, an alternative aircraft may be required to optimize this opportunity. With a limited amount of aircraft available, the airline would be forced to "make-due" with the less than optimal aircraft currently assigned to the route. If an on-going, interactive relationship with a lessor is in-place, the airline and lessor could negotiate a mid-term swap-out scenario where by the airline returns the current aircraft and acquires a new aircraft on the same lease that fits into the current operational market demand. Even if the new aircraft comes with a larger

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PRO-ACTIVE LEASE MANAGEMENT

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price tag, it is possible to keep the lease payments the same by extending the term of the remaining lease. The airline gets a bigger and better aircraft that is right for the job at the same periodic rate for a term that matches its requirements. The lessor has the opportunity to take back the original equipment and possibly remarket it at advantageous rate and reduced risk. The lessor also creates "new lease volume" by placing the new aircraft. Most importantly, the mid-term transaction adds value to the on-going relationship without waiting for the end-of-lease.

Economic issues and technological issues arising in an on-going review of leased equipment are not mutually exclusive. As the previous example illustrates, technology (equipment) and economic (cash-flow) issues work together in drafting the correct solution. Whether an airline, semiconductor manufacturer or construction firm is the lessee, matching these is the key to a successful pro-active approach.

For example, a construction firm may lease a road-grader for a three year term to match the length of a highway building project. One year into the lease, the crew is asking for a bigger and more efficient attachment that recently became available from the manufacturer. An effective Lease Account Manager working in conjunction with the Lease Portfolio Manager would jump at the chance to upgrade the equipment (new lease sales volume) and adjust the term of the lease in order to keep the periodic payments at a level that matched the lessee's cash flow. The lessor must consider the marginal residual achieved by the investment in the equipment upgrade and the lessee must evaluate the utility of the more efficient tool.

Other examples of mid-term solutions are early equipment returns, economic re-engineering of lease structure, mid-term extensions, equipment remarketing, logistics support, tax obligation review, etc. These are all matched through early, on-going evaluation and can be used alone or in combination to add value to the initial lease transaction. The solutions must also be measurable. Use the periodic review to determine how the lessee calculates equipment utility and economics. Is it based on an internal cost of funds? Is it on an overall Present Value of Cash Flow? Is a per unit throughput analysis part of the equation? None of these solutions is unique or new, but "selling" these opportunities in advance as part of doing business with the lessor will distinguish the value added lessor from the traditional lessor/finance shop.

When you get to end-of-lease (or for an early return), a lessor "hand-holding" the lessee through stringent return requirements creates significant value as well. Semiconductor manufacturing equipment is typically environmentally sensitive and must be evaluated, de-installed, crated and shipped according to specific manufacturer's requirements. Too often, the fabrication plant operator simply de-installs the equipment and sends it to the shipping docks on a pallet. If

he/she considered the return conditions stated in the lease in advance, the manufacturer's process would have been followed to the letter. Unfortunately, it may cost the lessee an amount more than the tool is worth to go back and follow these return procedures. Once again, here is a terrific opportunity for the lessor to engage the lessee by bridging their finance and operations departments and providing guidance regarding return procedures. This simple exercise is the easiest way for a lessor to demonstrate value.

Adding a curtain of drama to the traditional leasing relationship, Notice Period heightens the adversarial relationship between lessor and lessee at end-of-lease. Lessors have used end-of-lease Notice Period and "Ev-

ergreen Clauses" as a stick to beat lessees into a few more months of rent. Again, the pro-active lessor uses this traditional end-of-lease battle as an opportunity to rise above the fray and provide a valuable service to the customer. Several months prior to the Notice Period, a reminder should be sent to the lessee regarding the upcoming Notice Period including a few possible scenarios for the equipment (i.e. extension, buyout, upgrade, etc.). These scenarios should demonstrate expertise in the lessee's industry and provide a near consulting type service. At the minimum, the lessor will continue to build a solid mutually engaged relationship with the lessor. At a maximum, the lessor turns an adversarial battle into a mutually beneficial opportunity and plants seeds for continued business.

With a pro-active approach, the lessor gets a jump on the "Price Alone" competition. With four or five leasing sales people in the lobby, a bevy of leasing sources on the

Internet and alternative methods of asset-based finance available, the Lessee CFO will select the winner by determining which "lessor/partner" adds the most value.

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