



The Alta GroupSM

Global Experience Provides Direction *For Equipment Leasing And Asset Finance*



Normal Service should be resumed as soon as possible

The winds of change blowing across the asset finance landscape are truly taxing, and for even the most accomplished of exponents as they attempt to navigate a safe course. Perhaps one reason for that is the uncertainty of the ultimate destination, says **Malcolm Ogle, Chairman of Alta's EMEA Region.**

There is, it seems, an obvious fragility in confidence not just about the direction of travel, which would not be for the first time in leasing's 50 or so years of existence, but now, and much more worryingly, about its very survival as an independent and entrepreneurially-driven industry.

For the past three or four years, and with increasing regularity since 2009, there has been a consolidation of asset finance businesses leading to (although this is not yet a culmination by any means) a polarisation. On the one pole, monolithic, highly regulated – both internally and externally – and *action defined*, are the national and international banks. And on the other, generally smaller, more nimble and *action flexible*, are the specialist lessors and asset financiers. The latter are much fewer in number than five years ago, and almost certainly currently in further retreat, not necessarily in terms of their own entity, although that may be the case for some, but in making a case for an optimistic and progressive future for the sector.

In part the polarisation is an inevitable consequence of the banking sector's historic vaulting ambition, which was brought to a halt so abruptly and painfully. However, rather than encouraging those occupying the opposite pole to seize the opportunity to create something new and dynamic in competition, a form of "same thinking" was developed, mirroring what the banks did, in which conservatism and ultra caution won the day.

HARNESS LEASING'S ENTREPRENEURIAL SPIRIT

This reflective strategy, in effect copying the actions of a perceived superior, is a widely recognised behaviour in every walk of life. Unfortunately in the leasing and asset finance world it could lead to the diminution of the entrepreneurial spirit which has striven so valiantly for the past half century to create a real and worthwhile differential between its own practitioners and products and those of the banks.

EVER DECREASING CIRCLES

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Even the possibility of such a retrenchment is surprising, some may say shocking, as in each of the industry-defining setbacks of the past, and there have been plenty, there arrived sharp-minded, motivated and energetic lessors who surveyed the wreckage and focused on the point of maximum leverage (not always exclusively financial!) to create something new and valuable. Those veterans left an enduring legacy and it is to be hoped their successors are even now planning to resume normal service.



If you would like to discuss, confidentially, any of the issues facing your organisation and learn how Alta can help, call Malcolm on +44 1825 713356 or +44 7740 723466, or email malcolmogle@thealtagroup.eu.com

Alternatively, [CLICK HERE](#) to contact any of our Principals direct

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Ever decreasing circles

ARE WE WITNESSING THE START OF AN EXTRAORDINARY TRANSFORMATIONAL CHANGE IN THE WAY IN WHICH ASSET FINANCE IS REGARDED IN THE UK AND PERHAPS ACROSS EUROPE? JEFF ADDISON WRITES.

» Certainly the recent confirmation by one of our largest and most profitable banks, that they will no longer directly provide asset finance/leasing to SMEs – defined as those with a turnover of less than £5m – because the “need” wasn’t there, is a change. The immediately obvious benefits to the customers of this change are somewhat difficult to discern.

Of course, the bank will continue to offer “more suitable solutions”, although that must be qualified by questioning for whom the solution is more suitable – surely that won’t be the bank, will it? Cynicism, as we know, plays no part in banking strategy formulation – it is *always* about the customer and *their* needs. Although some might argue that *deciding* what the customer needs, rather than asking them what they would like, does rather seem to be at odds with the concept of service.

The old USSR communist era state limousine of choice was the Zil, but only because there was no alternative. Once post the fall, there was a choice, it quickly and unsurprisingly became a luxury Mercedes and has remained so. Remarkably, the Zil now appears to be making a comeback and only last month Medvedev and Putin were reported to be

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investigating a possible revival of the iconic marque to replace those super Mercs. This I mention, only to demonstrate the entirely circular nature of practically everything.

I’m quite sure that before too long someone, somewhere in banking strategy land, will fondly recall the old days when businesses, especially that multitude of smaller companies at the heart of the economy, actually needed to finance an asset; perhaps a telephone, an IT system or some printing equipment. They didn’t need a loan with all its complications and implications, or an increase in their overdraft with its potential for instant renegotiation, reduction or removal.

No, what they needed was a simple, fixed-rate facility, over a sensible term, swiftly approved and if possible to be seen as an additional line of credit. It would be quickly established and documented, perhaps with an easy to understand and complete, single page lease. The whole process from

making the decision on the asset to approval of the finance might even be measured in hours.

“Eureka!” – says the bank strategy team, “it must be done because the customers *need* it, and furthermore let’s have specialists on the team who actually know and understand asset financing.”

Once such a decision is made, perhaps a small step will be taken on the road to restoring some credibility in asset finance as a valuable, flexible economic tool. In the meantime, keep an eye out for the return of the Zil to the streets of Moscow.

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Update on the International Accounting Standard debate

MARC TENDLER SUMMARISES THE CURRENT POSITION.

» The closing date for submissions on the leasing International Accounting Standard exposure draft passed in December 2010 with over 750 submissions from interested parties. It is rare to see so many submissions and it is a good gauge as to the strength of feeling that so many organisations have taken the time to respond.

The concept of the hybrid model for lessors and especially the performance obligation model has seen significant opposition. This could give rise to a rethink of the hybrid lessor approach. The derecognition model is generally favoured but with accretion to take income on any residual value during the life of a lease, rather than freezing any income on the residual until the end of the lease as proposed by the exposure draft.

The current thinking of the regulators is that they might retain two types of lease but these may be more akin to the existing finance and operating lease options, albeit that they will want the lessee to capitalise all leases on their balance sheet.

It is interesting to see that at this somewhat late stage, what many would describe as basic and fundamental questions still have to be addressed. One of the most interesting is answering the question, "What is a lease?" This is especially the case if the equipment lease is embedded within an asset-based service contract. If service contracts are treated as operating leases and go on balance sheet this would have a significant impact and there is considerable pressure on the Standards Board to define a lease.

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Likewise, the vexed question of extensions and renewals. The 50% "longest more likely than not period" threshold is felt by many respondents to be too low. To make it workable lessors need more certainty and it has been suggested that the threshold for bringing these on balance sheet should be raised to at least 75%. Common sense has now prevailed and the regulators have indicated they will remove the requirement to capitalise renewals.

Where does this leave lessors? Clearly nothing is certain and the accounting standard timetable might slip but change will happen. It is up to all of us to make sure we are prepared and resourced to meet these challenges. Too much planning might be seen by many as overkill at the moment but experience shows that sitting on your hands and waiting for the dust to settle could leave you ill prepared for the challenges ahead.

Manage compliance with the leasing accounting standard and seize the opportunities created by it, with The Alta Group as your management advisors. Our worldwide capabilities uniquely position Alta to help you understand and address the new rules and implement a strategy appropriate to your organisation.

Industry-specialised advisors: an important resource for lessors

INDUSTRY-SPECIALISED ADVISORS ARE BEING USED INCREASINGLY BY EQUIPMENT LESSORS AND FUNDERS OF ALL SIZES TO HELP THEM ACHIEVE THEIR BUSINESS GOALS. BY JONATHAN FALES.



The normal daily pressures often make it difficult to devote time to focus on strategically important business issues: What goals will you set for yourself, and your company, for the rest of 2011? What personal development needs do you and your employees have? Where do you want to be, and what do you want to be doing, in three-to-five years' time? What actions do you need to take to be certain you can achieve your objectives?

There are tactical issues to consider as well. Does your business have the knowledge, skills and processes necessary to achieve your strategic goals? How do you translate your business strategies into real-world, executable plans? What can you learn from others in the industry, who have "been down this path before", that will save you time and money?

Executives that make the time to ponder, and answer, these questions regularly put themselves and their businesses in a better position to be successful.

REAPING BENEFITS FROM EXPERIENCE

Many companies in the equipment financing industry have found that the use of specialised, industry-experienced advisors can enable, and accelerate, the achievement of their strategic and tactical goals. This is true both for smaller companies, which often lack the internal resources of their larger competitors, and for mid-to-large sized firms, which may not have the niche expertise required for specific opportunities.

Among the benefits that industry advisors can provide are:

■ A CANDID ASSESSMENT OF YOUR CURRENT CAPABILITIES

Advisors that work extensively in the equipment financing industry have the experience to know what skills and capabilities you need to be successful and maximise your profitability.

■ STRATEGIC PLANNING HELP

Using an industry advisor to facilitate a business's strategic planning process brings two important benefits. Firstly, an advisor that is a former industry executive will bring a fresh perspective to the process; he may see solutions to challenges, or new opportunities that may not be readily apparent to your executive team. Secondly, the advisor will bring the experience of having worked with many lessor clients over the years. This knowledge can help ensure that the strategy you develop for your company is realistic and achievable in your desired timeframe.

MANY COMPANIES IN THE EQUIPMENT FINANCING INDUSTRY HAVE FOUND THAT THE USE OF SPECIALISED, INDUSTRY-EXPERIENCED ADVISORS CAN ENABLE, AND ACCELERATE, THE ACHIEVEMENT OF THEIR STRATEGIC AND TACTICAL GOALS



IS IT TIME TO “SPRING CLEAN” YOUR BUSINESS, TO ASSESS (OR CREATE) YOUR STRATEGY, AND PUT TACTICAL PLANS IN PLACE TO ACHIEVE YOUR GOALS FOR THE REST OF THE YEAR AND BEYOND?

■ FASTER AND MORE EFFECTIVE ENTRY INTO NEW MARKETS

Your business may have expertise that makes adjacent markets attractive. Industry advisors can help you understand important risk and process considerations in new markets.

■ SALE OR ACQUISITION OF A BUSINESS OR NON-CORE UNIT

Industry M&A advisors can help you value and prepare for a sale, or review a potential target and by performing due diligence on the portfolio, people and processes help you identify potential pitfalls before the process actually begins.

■ REACT MORE QUICKLY TO COMPETITION

Markets such as technology, telecommunications and healthcare are changing rapidly through the lightning-fast introduction of new products and new concepts (think cloud computing and virtualisation). If IT financing is a core part of your business an industry advisor can help you understand what customers are asking for, what your competitors are actually doing and can help you separate fact from fiction in assessment of current market terms, conditions and pricing.

■ EXPANSION INTO INTERNATIONAL MARKETS

Lessors with vendor relationships are increasingly being asked to follow their vendors into international markets. An industry advisor can help you decide whether partnering with a foreign lessor, or actually establishing your own international operation, makes the most sense for your business. International expansion does not have to be an overwhelming task, but it does take careful planning to be successful; government reporting and licensing regulations, taxes, credit information availability, local collections practices, and other important issues need to be researched and carefully planned. Also, the choice of whether to use a local partner – and who to use – is a critical consideration to avoid costly mistakes.

■ PERSONNEL DEVELOPMENT

Businesses recognise that people are their most valuable asset, yet often fail to invest sufficiently on training and educating their staff. An industry advisor can help businesses develop and implement effective, affordable professional development programmes.

Is it time to “spring clean” your business, to assess (or create) your strategy, and put tactical plans in place to achieve your goals for the rest of the year and beyond? An industry advisor is an important resource to help you grow your business faster, improve your profitability, and make better and more informed strategic decisions for your business.

Alta's EMEA team is a growing part of the global reach of The Alta Group which now has 45 Practitioners based in 16 countries but operating worldwide – forming an unrivalled knowledge bank of expertise and experience across the asset finance and leasing industry.

Opening the doors to market entry

WHEN A COMPANY ENTERS A NEW MARKET, IT IS SEEKING A SPECIFIC SET OF CUSTOMERS TO GROW ITS BUSINESS. SUCCESSFUL NEW MARKET ENTRY DEPENDS ON THE ABILITY TO MATCH A COMPANY'S CAPABILITIES TO THESE NEW CUSTOMERS' NEEDS. A POTENTIAL MARKET PRESENTS A UNIQUE SET OF CHALLENGES THAT MUST BE IDENTIFIED AND OVERCOME TO ACHIEVE SUCCESS.



New market entry is akin to setting up a business – whether it is entry to the leasing industry, entry to an adjacent equipment or customer market or geographic expansion.

If a company is a pioneer, what can it do to prevent share erosion when competitors move in? If a company does not have a first-in advantage, what can it do to challenge the one that does? Whether a pioneer or a late entrant, it is important to have a thorough understanding of entry and defensive/attacking strategies and a good sense of timing.

As competition intensifies and markets change rapidly, the need for business intelligence is paramount when seeking to tap new markets. Most businesses have a product or service that can travel and know-how can help a company look further afield and achieve success at its target destination.

Globalisation is shifting behaviour and attitudes and information is now more publicly and easily available than ever before and in plentiful supply – at the click of a mouse. Nevertheless, it is often the case that the most valuable information, such as specific and detailed intelligence for confident decision-taking, is scarce and cannot be found online.



TAP INTO EXPERTISE

Bespoke business intelligence is an extremely valuable asset and helps to support the development of a sound market entry strategy. Where appropriate, it should encompass the rationale for entry; market characteristics; the competitive environment; the legal and regulatory framework; local cultural differences; language barriers; channels to market; location; the most suitable structure for the business entity; resource requirements; implementation; and the all-important risks throughout the project.

The increasing demand for capital goods in emerging countries is paving the way for asset finance to explore new openings. Some of the greatest riches may be found in the toughest terrains. We are seeing plentiful opportunities to help the strong exporting nations; using our global contacts to help exporters with sales finance arrangements in their target import countries. We are also seeing renewed interest in market entry generally and are currently working on major projects in the UK, Central Europe and the Middle East.

ALTA CAN DELIVER THE SPECIFIC INFORMATION A COMPANY NEEDS TO SURMOUNT THESE CHALLENGES – THROUGH EXTENSIVE AND TAILORED RESEARCH AND STRATEGIC PLANNING

Industry consultants can help companies understand important risk and process considerations in new markets, using knowledge that only comes from experience. The Alta Group's practitioners have launched and managed a variety of leasing programmes worldwide. They draw on their experience, contacts and extensive resources to help companies determine and implement their market entry requirements. Alta can deliver the specific information a company needs to surmount these challenges – through extensive and tailored research and strategic planning.