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Global Experience Provides Direction for Equipment Leasing and Asset Finance

Through collective knowledge and experience, The Alta Group provides value for its clients in the global equipment leasing and finance industry in outcomes that increase revenue, control expenditures, and improve productivity and profitability.

AltaVantage Points

First Quarter 2012

Cloud Financing Requires Entirely New Forms of Business



Jon Fales

for comparison, taking full advantage of this opportunity requires research, benchmarking and deep experience in creative service financing.

While some lessors may still be grappling with the definition of

Nearly one-third of companies interviewed by IDC for an equipment leasing industry survey completed in December plan to use external leasing or financing for cloud initiatives. Inquiries about cloud computing received by The Alta Group from information technology (IT) vendor executives center on how to formulate an entirely new form of financing that requires adjusting internal relationships (including cost allocations) and external market approaches - particularly pricing and transaction structuring. Since cloud computing represents a significant, new area for growth - possibly the largest opportunity in the IT marketplace for the next several years - and there are no standards

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**Latin American
Leasing Industry**

cloud computing, others are already in various stages of developing a new business niche.

The Equipment Leasing & Finance Foundation's recent report based on IDC's research, *Financing the Cloud - A Market Study*, found that:

- Cloud infrastructure build-out is an expanding segment with positive long-term financing prospects for IT leasing and finance companies. Global spending to build internal private IT cloud infrastructure and public IT cloud infrastructure reached an estimated \$12.7 billion in 2011 and should exceed \$32.3 billion by 2015.
- IT public cloud services represent another growth opportunity. IT organizations and consumers have begun buying computing and storage resources from third-party service providers in a manner reminiscent of timeshare services. Globally, customers spent 30% more on public IT cloud services in 2011 (\$29 billion) than in 2010, and should spend \$55 billion annually by 2014.
- Unusually high cash balances at Fortune 500 businesses concerned about the economy represent the greatest short-term challenge for IT leasing and finance companies. On the other hand, "the pendulum on cash hoarding will shift to leasing and financing over the next 24 months, as end users look to leasing as a means to limit their risk exposure for IT equipment and solutions...."
- Now is the time to consider cloud financing initiatives. "IDC believes that as uncomfortable and potentially confusing as IT cloud computing seems in its current forms, these market segments have reached the multibillion-dollar threshold, and based on that, it is time for providers to begin pursuing these financing opportunities, as they account for almost half of this market's net growth."



Melisa Carter

So far, mostly captives and independents are exploring potential business models, according to Melisa Carter, a consultant with The Alta Group who was involved in the development of the study. However, she added, there is a long way to go before most credit officers and chief information officers reach comfort levels. She also spoke on the subject during a recent foundation webinar that was well attended, mostly by people with questions about how to determine credit and risk factors in this entirely new kind of financing.

Carter said the most valuable finding of the foundation's study was that cloud computing represents a real and

accessible technology with economic benefits regardless of the challenge of implementing it. Although the industry will have to overcome some hurdles including metering and related measurement issues, she is confident that, as with past challenges, a solution - most likely a variety of solutions - will be developed.

Jon Fales, a senior managing director in The Alta Group and leader of the consultancy's IT vertical practice, explained, "In the past, IT and office equipment vendors could measure usage-based, cost-per-unit cycles or number of copies, but with cloud computing an

Experiences 'Growing Pains'

Latin America's equipment leasing and finance industry is experiencing "growing pains" after a period of exuberant expansion, according to annual research by [The Alta Group Latin American Region \(LAR\)](#). Though some countries and companies witnessed growth, the region's overall leasing portfolio declined 6% in 2010 as measured in U.S. dollars, noted the *Alta LAR 100* report.

"In light of the fact that the economy grew 5% in Latin America, we were surprised that the overall leasing portfolio did not grow," said [Rafael Castillo-Triana](#), CEO of The Alta Group LAR. "The Latin American leasing industry is having growing pains. It is maturing, and business models are making a substantial transformation from pure finance and credit leases, to business models centering more on operating leases. This changes the way companies allocate their capital, go to market, and originate business."

"Other factors that had an impact on the industry included the 2008 financial crisis, the relative depreciation of the U.S. dollar, and, in certain Latin American countries, tax reform and political leadership," Castillo-Triana explained.

The report provides details on:

- growth or decline of leasing portfolios in individual countries,
- contributing factors to leasing trends,
- the region's fastest growing leasing companies, and
- the 100 largest leasing operations.

Brazil's leasing industry, which holds 63% of the region's portfolio, decreased 9% in 2010. Large bank-affiliated leasing companies drove the downturn, while well-known captive leasing companies and vendor-oriented leasing companies achieved notable success, according to the report. Other countries with declining leasing portfolios included Guatemala (95%), Dominican Republic (55%), Venezuela (41%), Ecuador (35%), and Puerto Rico (30%).

Countries achieving growth in challenging times included Colombia (7%), Peru (12%), Mexico (19%), Chile (22%), Bolivia (25%), Argentina (68%) and Costa Rica (147%).

application might be running on different servers and it would be almost impossible to track cost-per-unit time. You can't use old school measures. Vendors are now trying to figure out how to measure usage based on number of users and their ability to log in to the cloud application as needed. Vendors also are grappling with the implications these cloud structures will have on revenue recognition."

"Other market dynamics will also have to be addressed strategically. For example, many customers of captive IT vendors will either reduce the size of their own data centers or move entirely to public clouds. This will result in fewer clients but larger portfolios for some lessors, who in turn will have to consider their concentration risks."

Other questions arise when looking at cloud computing as a service. "For example, if there is a default, what can be repossessed? Cloud financing will require understanding critical-use software, and knowing how important use of the application is to the business," Fales said. Carter added, "There are active discussions going on now between captives and parent companies about how to do this."

Alta is an excellent source of knowledge and guidance in evaluating options and determining a path, she said. The consultancy has 20 years of experience performing industry benchmark studies and helping organizations establish successful new business models and outsourcing relationships and structures. Its team of proven consultants includes professionals with vendor financing experience, such as Paul Frechette, and risk management experts, such as Joe Boland and Andy Mesches.

For more information about cloud financing, contact [Jon Fales](#) or [Melisa Carter](#).

Business Intelligence Tools Critical in Post-Recession



Paul Bent

Retail and transportation are just two of the industries that have leveraged business intelligence (BI) applications to improve forecasts, market positioning, trend spotting, risk management and other processes critical for decision-making. The equipment leasing and finance industry, however, has been relatively slow to maximize its potential.

Equipment finance leaders want to change that by educating companies about the competitive benefits of BI in a post-recession economy, said Paul Bent, senior managing director

of The Alta Group, which works with clients to resolve front-end and back-end business challenges.

For more information, read [Castillo-Triana's article](#) in *LJN's Equipment Leasing Newsletter*.

A complimentary report will be posted soon on www.thealtaconferencias.com. To purchase detailed reports, contact [Katrin Forster-Csvany](#) at [954-632-0922](tel:954-632-0922).

Invigors EMEA Sponsoring Asset Finance Briefings

Invigors EMEA, part of The Alta Group, is sponsoring a series of Asset Finance Executive Briefings in London targeted to the needs of senior decision-makers within the asset finance industry. The briefings will feature expert speakers and lively debate, covering subjects of both strategic importance and operational benefit.

The first briefing January 25, 2012 will provide an Update on Regulatory, Accounting and Fiscal Issues. Briefings also are planned March 8 on The Future of the Broker Market, and May 29 on Manufacturer Finance.

[Click here](#) for more information.

Daniel G. Morse Joins Alta to Lead New Health Care Finance Consulting Services



Daniel Morse

[Daniel G. Morse](#), whose broad experience in health care equipment finance encompasses global risk management and underwriting as well as business development and sales, has joined The Alta Group to lead the firm's new health care practice.

The practice provides strategic planning, market entry, due diligence, problem resolution, operational reviews, marketing strategy, and organizational

As a longer term goal, Bent added, Alta is exploring the concept of an industry wide database, scrubbed free of proprietary data, that would enhance the effectiveness of BI initiatives across traditional finance industry boundaries.

"The leasing industry has not really adapted BI technology as effectively as it can be used. In the retail industry, for example, Amazon uses business intelligence to identify individual customer preferences and email offers for related products. The transportation industry uses business intelligence from frequent flyer programs for similar purposes," said Bent, moderator of the session on *Business Intelligence: A Key to Enhanced Profitability* at the Equipment Leasing & Finance Association (ELFA) fall conference.

Session panelists also included Richard Ryan of Invigors EMEA in Europe, part of The Alta Group, which has produced a BI white paper highlighting the gap between existing capabilities in leasing companies and the BI required to support decision-making in the current business environment. Michael Donnary of Capgemini, Scott Thacker of Ivory Consulting Corporation, and James J. McKinney of RBS Citizens Asset Finance also provided their insights.

Business Intelligence - The systematic analysis of internal and external information to yield insights that can help maximize a company's performance, market position, and profitability.

Business intelligence tools are software systems (standalone, features embedded in existing systems, and/or mobile applications) that provide users with analytics extracted from existing databases, presentation capabilities tailored to the user's needs, and dashboards, real-time updates, integrated tools and reports, Bent said. BI tools can be used to improve internal processes including key performance indicators/reporting, to drill down on profit and loss drivers, to analyze performance and risks, and for data-heavy analysis. Externally, BI data is useful for market and competitive intelligence, growth, opportunity and trend identification, and analyzing lighter data volume.

Bent said BI applications can help equipment leasing and finance organizations answer the following questions, and more, for enhanced decision-making:

- **Profitability:** Where do we make our money, and can we analyze results by financial products, geographies, credit scores, asset types?
- **Sales:** How well is the sales force aligned with the most profitable opportunities, how and why do we lose deals, what are the cross-selling and up-selling opportunities?
- **Marketing:** How do we track conversion rates over time, and how do customers respond to specific campaigns and adjustments?
- **Vendors/Brokers:** What is our penetration rate, and how does it correlate to product and price offerings?
- **Customers:** Which ones are unprofitable, what factors make them so, how can we migrate them to more profitable products?
- **Products:** What offerings result in the highest returns?
- **Underwriting:** How can scorecards be aligned dynamically with bad debt experience, what is the overall view of each customer relative to our exposure?
- **Portfolio:** How will it perform under hypothetical future conditions, what provisioning should be considered?
- **End of lease:** What end-of-lease event is most profitable, under what circumstances, and can the highest potential end-of-lease customers be identified?

development services to companies involved in health care equipment financing.

Morse, an Alta director based in Jacksonville, Oregon, was formerly global risk manager and, later, sales manager of capital markets and growth initiatives for GE Commercial Finance - Healthcare Financial Services. Prior to joining GE, he was sales manager of health care, technology, and energy finance for CitiCapital Vendor Finance. He held leadership positions earlier in his career at Copelco Capital, AT&T Capital Corporation, Chase Manhattan Leasing Company, PacificCorp Credit Corporation, and United States Leasing Corporation.

"The health care space is now defined by our clients as one of the most important in the equipment leasing and finance industry," said [John C. Deane](#), CEO of The Alta Group, LLC. "Dan's deep practical experience in health care equipment financial services will lead Alta's practice in this important sector."

Morse's appointment comes at a dynamic time for health care equipment finance companies.

"Decisions by the Supreme Court and Congress in 2012 will impact health care spending for the near future," Morse said. "Faced with the current uncertainty, many health care providers are taking steps to contain costs and move conservatively on new projects."

Quick Survey

Alta is interested in learning how its constituents prefer to receive information. This poll features four survey questions to learn where the industry meets in social media.

[Click here to take survey.](#)

- **Forecast trends:** What are the forecast trends based on data mining techniques, stochastic and predictive analytical methods, modeling built on parametric assumptions, and/or the availability of large volumes of statistical data?

William Phelan, president of PayNet, offered an industry example of the benefits possible through enhanced business intelligence. His company has been working with a major equipment company serving the vendor market, which experienced a 400 percent adverse "odds shift" in its credit scoring system during the 2008-2009 recession. The odds shift occurred because the model that was being used relied on observations from before the last recession. As a result, defaults jumped from 0.5% to 2.5%, surprise credit losses hit the bottom line, and earnings fell over 50% during the recession.

PayNet Custom Score Variables showed lift ratios 15% higher than traditional credit bureaus. "The net result is that, through high hit rates and 15% higher credit lift, the lessor was able to deliver a new credit scoring system to measure and price for risk. Testing showed this system results in an over \$10 million improvement in the bottom line through better informed risk measurement. Additionally, the lessor was able to safely increase transaction automation," Phelan said.

The 2011 Business Technology Performance Index by Capgemini and the ELFA found that 25% of survey respondents did not use BI tools, instead manually constructing reports from application outputs. Many organizations reported using several BI tools from multiple vendors, and aggregating and reporting data from a data warehouse or other repository. However, survey respondents also said the greatest barriers to an effective BI program in their organizations were staff skills/training and user culture, among other issues.

The Alta Group is prepared to assist clients and leasing industry executives in assessing BI tools and programs to extract insights and direction from existing and future data stores - tools that can enhance depth and confidence in forecasting and decision making.

Resources

[*Business Intelligence: A Key to Enhanced Profitability*](#)
ELFA Annual Conference Presentation

[*Business Intelligence Part 1: Unlock the Hidden Secrets in Your Organization*](#)

A white paper by Invigors EMEA, free with registration on assetfinancebi.com

[Paul Bent](#), The Alta Group.

Bob Neptune Reports
Public Finance is Safe Bet



Bob Neptune

Government leasing is a better opportunity today than it was several years ago despite news reporting that state and local governments are struggling financially. Forecasts of the demise of public finance were wrong, and there is less competition since some major industry players have departed the market.

The Alta Group has created a special practice area to assist companies seeking to enter and grow in this sector. It is headed by Consultant Bob Neptune, an industry pioneer in government leasing who has decades of specialized experience. Prior to becoming an industry consultant, he was in public finance for De Lage Laden, ORIX, Transamerica, and Heller.

In his recently published article for *Equipment Finance Advisor*, Neptune said, "Due to the contraction of market participants, the companies that stayed active in the municipal leasing business during 2009 and 2010 were essentially able to pick and choose their transactions at attractive rates."

His advice in this market niche is to eliminate most of the risk of non-appropriation and default in municipal leasing by having experienced and knowledgeable people engaged in the underwriting and due diligence process. His recommendations:

- Know your vendors and their sales processes.
- Investigate the essentiality of the asset, its useful life, and its actual anticipated use cycle.
- Assess the entity's understanding of the asset, the financing process, and the terms.
- Evaluate the ability to pay.

Pressures will continue on municipal, state, and federal budgets, he said, but nothing short of a major economic collapse is going to cause significant municipal defaults. For the full story, [click here](#).

For guidance in this market or support in managing the risks, contact [Bob Neptune](#).

AltaVantage Points is published regularly since 2009 by The Alta Group, a leading consultancy in the global leasing and finance industry. For more information, visit www.thealtagroup.com.