



## Technology Equipment Leasing: New Curves Ahead

By Jonathan L. Fales

As IT equipment leasing continues to evolve, it is clear that lessors in this segment would be smart to evaluate their competitive positions. They need to plan accordingly to capitalize on trends that show no signs of fading.

This need clearly emerged during a series of interviews with 24 senior-level executives at bank, independent and captive lessors this summer. The Alta Group spoke with these industry leaders during development of a new, comprehensive study of the IT leasing market, commissioned by the Equipment Leasing Association of America. The study will be released at this fall's ELA Convention.

A number of concerns were discussed during the interviews, some of which will undoubtedly affect many lessors in the coming years:

First, the bundling of hardware, software and services is now the norm, rather than the exception, in the business. Lessors are aggressively moving away from the mindset of strictly hardware transactions to

financing the "total" solution. In fact, captive leasing operations are now financing more than just their parent companies' equipment, but all hardware needed, including their competitors'.

The roots of this movement can be traced back a decade but, according to those interviewed for the study, offering bundled financing is now the standard price of entry into the market. Failing to do could spell failure for lessors.

Many companies today are replacing big, centralized mainframe computers with multiple servers. When they need to add computing capacity, instead of replacing them – as was done with mainframes in the past – they simply add a new bank of servers. Consequently, customers are keeping servers longer and lease terms are following suit, reversing the previous trend.

PC leases are generally growing longer, too. While the technology curve continues to accelerate,

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Secondly, independent lessors are being squeezed like never before. Their survival depends on finding unique niches to serve in the IT leasing market.

Captive lessors that support IT equipment manufacturers are flexing their muscle. They are determined to increase their lease finance penetration rates through aggressive residual pricing. Banks avoid residual risks, but continue to enjoy the lowest cost of funds and can offer the best lease rates.

This means independent lessors must focus their business. Among their options, specializing in a particular type of equipment where they can take aggressive residuals. Or it means targeting underserved markets, such as companies with lower credit ratings or smaller distributors/resellers with sales below their bigger competitors' thresholds.

And finally, continuous advances in technology are driving changes in IT equipment leasing, but not like one might expect.

many organizations are realizing their PC users barely use the functionality of current models, lessening the desire to upgrade so often. It is not uncommon to find 36-month lease terms.

Shaped by these significant developments and others, we expect the IT equipment leasing market to maintain its gradual evolution. Adapting to meet customer requirements is crucial to success. Lessors should anticipate their next moves now to stay ahead of the game.

Waiting may cost them a spot at the table.

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