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Trends And Opportunities In Workflow Management And Integration

Over the next few years, it seems inevitable that more lessors will move ahead with automating their entire lease management process from origination to final disposition. Those lessors who have embraced technology that solves specific problems and creates a measurable competitive advantage have built a history of success and growth. Another opportunity has arrived.

By David Holmgren and Joseph Moore

To a large extent, the excitement that first greeted the promise of workflow automation and network integration in the equipment leasing industry has faded over the last decade, to be replaced by a more skeptical, pragmatic approach. This is not to say that there have not been many great success stories and technical and business victories—there have been, and many companies from both the supplier and the user sides have achieved great things.

However, it's safe to say that, for the bulk of our industry, the perception is that there's been a bit more smoke than fire over the last decade. This is in some ways unfortunate, because today, both the suppliers of workflow and integration products and the equipment lessors they serve stand ready to make some solid progress. Proven tools and know-how exist today that can transform a lessor into a much more competitive player, giving their customers faster and better service, and adding more value to transactions.

As the supplier of a leading lease pricing tool, we have had both a part in and a front-row seat view of this progress. The remainder of this article will lay out how the workflow management and integration situations in the lease pricing industry look from here. This is not by any means the whole story, nor is ours the only perspective—every company has its story to tell, and we would strongly encourage anyone with an interest in this topic to talk to a variety of service providers and lessors to get their views as well. Our view will necessarily be weighted towards pricing issues.

The Opportunity

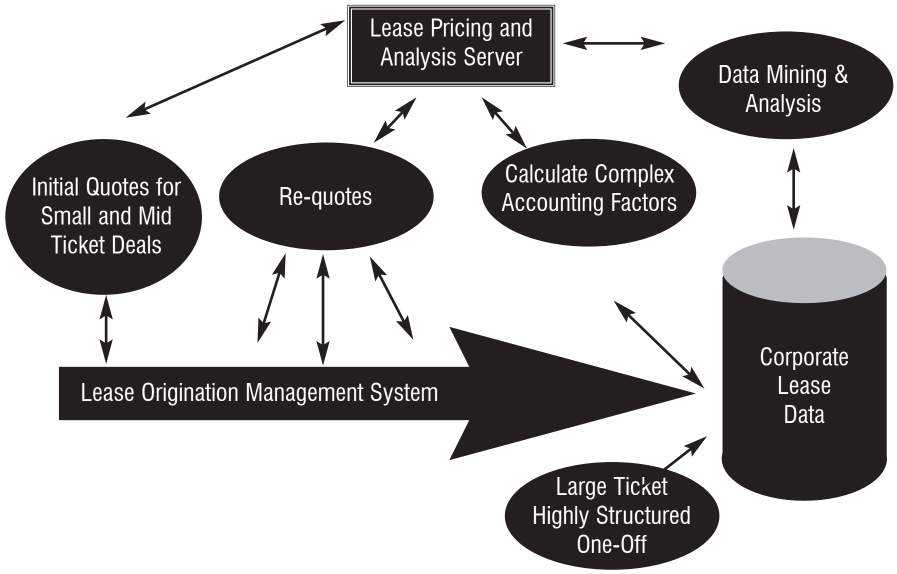
Everyone is familiar with the number of hands and eyes that handle and see even the most mundane equipment lease from origination to final disposition of the asset. The lessor and lessee must hook up to do the deal, customer information must be gathered, credit information must be collected and reviewed, pricing generated and agreed upon, documents executed, delivery agreed to —and on and on. Typically, few people involved view the process as a whole; rather, they see themselves as selling, or verifying credit, or accounting and so forth, but are not concerned with how it all fits together. Yet it's the big picture that makes the generation of profits—or losses—visible and, therefore, able to be acted on. The manager's job is to see this whole, and to seek ways to make it less a collection of independent acts and more a single, unified process.

The value of good information and solid management of the cradle-to-grave leasing process should be self-evident. Here are a few specifics:

How often is the same information duplicated in this process? Entering the same data over and over is expensive and prone to error. And piles of paper aren't just unsightly; they're an outdated and slow way to do business that tends to be frustrating for all parties involved.

What's in the pipeline? If I only knew what was going on out there—how many quotes are being generated, how much work is being expended structuring and doing "what if" scenarios in advance of actual sales, my projections and planning could be greatly improved.

Lease Origination Management Data Flow
Selected Pricing/Analysis Integration Points



In the course of creating and moving data along in an integrated lease origination system, pricing is necessarily accessed a number of times:

- To create the original quotation after initial customer data collection
- To issue re-quotes in response to new information (changes in customer requirements, credit scores, asset cost)
- To perform sophisticated analysis on booked and pipeline transaction
- To calculate more complex accounting factors

In addition, highly complex, high dollar volume deals may be created by specialists outside the origination system—such transaction would be added to the corporate lease database.

What's the current status of transactions? Are deals getting closed, funded and booked in a timely, efficient manner? Can I speed it up? No one knows better than equipment lessors that time is money.

Is my pricing consistent, accurate, and up-to-date? Am I losing business, leaving money on the table or even losing money outright because my pricing does not reflect current business parameters?

Is the output of my system—reports, queries, and analysis—consistent and meaningful? Does this output give me enough information to manage well?

The Solutions

At first glance, getting a transaction from initial customer contact to booking might look like a pretty straightforward process. And often, it is. However, a little experience reveals that it's far from uncommon for a transaction to quickly become complex at various points in the process. Designing an equipment lease origination workflow management system that is flexible enough to cover all contingencies yet straightforward enough to be useful is not trivial. Today, however, such systems do exist. Key features of a good system:

- Information is entered once. After the initial data entry, subsequent required forms are filled out automatically.
- Credit review is performed automatically.
- The status of any particular transaction or set of transactions is readily seen and managed. Bottlenecks can be quickly identified and addressed.
- The user interface and access to data varies by the type of job the user is doing. A credit analyst, a sales person and a manager, for example, will see different user screens and have different abilities to view and manipulate information.
- Consistent, sophisticated pricing is accessible from within the system.
- A full range of analysis tools can be applied to any transaction or set of transactions.

For many deals, a 'rate sheet' approach to pricing might be used. The rate sheets are then merely the computer equivalent of the paper rate books, and a rate is automatically looked up. There are two disadvantages to this approach.

First, from an after-tax yield perspective, rate sheets would need to be updated daily to remain accurate. While the inaccuracy of monthly or quarterly rate sheets may seem trivial for small ticket deals (the kind for which rate sheets are most commonly used), in competitive situations, even this relatively small inaccuracy could lose a deal. The technology exists for building virtual rate books that are constantly updated—the company gets the accuracy of a day-specific price, while, to the user, it's effortless.

Second, rate sheet style pricing is suitable only for the simplest structures. For deals with even slightly adventurous structuring, a more powerful pricing tool is needed. Happily, again, the technology exists to launch a full-strength pricing tool from within the workflow management product, price a deal to any degree of complexity, and then 'return' to the workflow management product seamlessly.

Getting credit approval is often a time-consuming process. However, systems now available can automate the entire process, allowing for nearly instantaneous turnaround, while largely doing away with paper forms.

Next, such a system must not merely facilitate transaction processes. It must also provide management a view of where all transactions are at any given point, and provide methods for intervention when necessary. For example, a manager needs to know if some deal is hung up awaiting credit approval, and needs to be able to intervene (for example, by email) to get things unstuck. Further, the system must be able to produce reports that allow for real-time assessment of the sales pipeline.

Pricing is central to getting any deal done. Over the last few decades, we've witnessed a "downward push" in lease pricing sophistication. Not long ago, most deals were priced using a pre-tax 'HP12C' level of sophistication (and that was a great step up at the time!). Only certain big-ticket deals got full after-tax analysis and structuring. Today, sophisticated lessors apply rigorous after-tax pricing to even the most mundane small ticket deals. The reason for this progress is two-fold: first, the technology is there today—you don't need a mainframe and advanced finance skills to do sophisticated pricing—a competent sales person can use powerful lease pricing software running on almost any PC or even over the Web in a browser. Second, accurate pricing that incorporates the lessor's cost structure, tax situation, tolerance for risk, and internal financing parameters can be a decisive competitive advantage—you know your real yield needs, and can price with smaller tolerances.

The next big step, already taken by several leading lessors, is to use sophisticated pricing across the entire enterprise, regardless of asset cost, product type, or who—finance pro, sales person, vendor, partner or customer—develops the pricing. This is achieved by a combination of technologies. First, the pricing software is located on a centralized server. A lease finance professional can set up the rules and assumptions governing all lease pricing across the enterprise on that server, defining finance programs by asset type, territory, sales channel, and so on. Users access this pricing functionality through a Web browser or through a PC linked directly to the corporate network. The user interface is also controlled centrally, so that relatively unsophisticated users, such as potential lessees, see only the entry items that pertain to them, while more sophisticated users can be given as much leeway as corporate policy dictates.

The advantages of this type of centralized pricing are many. First, the lessor can build a sophisticated yield target, such as a Return on Equity, and have it applied consistently over all transactions. Second, changes to the pricing model—from a minor cost adjustment to a major restructuring of a finance program—can be done centrally and take effect globally and immediately. Finally, pricing data can be collected centrally and mined. What is in the pipeline for next month in the western region? What is the ROE on all deals closed last quarter? What is the impact of last month's deals on next quarter's taxes? These and other questions can be answered easily and with confidence.

The Origination/Accounting System Interface

So far, we've focused solely on managing the process from origination to booking. The first critical part is getting the freshly closed deal booked. The portion of the lease lifecycle from booking to disposition is likewise undergoing a transformation. Unfortunately, while the technology to automate this process has been around for a long time, many lessors still input deals into their accounting systems manually to a large extent. More options for the origination to accounting interface are just now becoming available.

Conclusion

More than most industries over the past 50 years, the equipment leasing industry has embraced and been pushed forward by technological advances. Again today, our industry has reached another stage in its technological maturity, where real integration and management of the entire lease lifecycle is finally a reality. Some lessors have already implemented many of the technologies described above, and are already realizing competitive advantages. Over the next few years, it seems inevitable that more lessors will move ahead with automating their entire lease management process from origination to final disposition. Those lessors who prudently embrace technology that solves specific problems and creates a measurable competitive advantage have built a history of success and growth. Another opportunity has arrived. *m*

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