Information Technology Equipment
Leasing & Financing:
U.S. Market Analysis & Outlook
2006
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Introduction

This comprehensive study of the Information Technology ("IT") Equipment Leasing and Financing Industry in the United States has been conducted by The Alta Group, LLC in cooperation with the Equipment Leasing & Financing Association1.

The study is designed to provide the reader with a basic understanding of the top-line demographics of the IT equipment leasing and financing segment in the U.S. and with a clear understanding of its changing competitive environment and trends.

Project Objectives

- Update ELA’s most recent study, Information Technology Equipment Leasing: U.S. Market Dynamics and Outlook 2003, with current data, market trends and dynamics information
- Measure and characterize the U.S. IT equipment leasing and financing market, both historically and prospectively
- Identify and analyze major changes and industry drivers
- Assess the competitive environment of the market
- Present a “snap-shot” forecast of the IT equipment leasing and financing market for the next three years, to identify threats and opportunities
- Analyze the data and information gathered during the study and identify trends and issues that successful lessors and lenders will need to address to continue their revenue, market share and profit growth in IT equipment financing

1 For purposes of this study, Information Technology Equipment includes computers, software, computer/software related services and communications equipment
Project Methodology

The study was conducted in the following steps:

- Primary sources – In-depth telephone and direct interviews were conducted with IT manufacturers, vendors, lessors, lessees and other industry stakeholders throughout the U.S. Interviewees answered detailed questions concerning industry growth trends, drivers, current industry requirements to be successful, competitive landscape and projected changes to the industry over the next three years

- Secondary sources – Data was gathered from government agencies, public companies, industry trade associations and publications and other publicly-available sources

- The Alta Group – In addition, Alta utilized its more than 14 years of extensive experience in the IT equipment leasing and financing market in the completion of the study
Executive Summary

The IT equipment leasing and finance industry in 2006 is a large, mature industry with prospects for modest, but steady, growth over the next three years.

The industry has recovered from the dot.com implosion that began in 2000 and new business volumes, at approximately $40 billion of new financing originations per year, are now well above their nadir at the end of 2002. IT financing as a percent of total U.S. equipment financing activity has risen, from approximately 12% in 2002 to almost 22% in 2005.

Some of the dynamics of the industry have changed. PCs and workstations now account for 43% of IT financing volumes, up 6 percentage points since 2002, at the expense of mainframes and servers (down from 28% in 2002 to 19% in 2005). Demand for software and services financing has increased markedly; this is not yet reflected in industry statistics, but lessors believe much of this “soft financing” goes unreported, as it is bundled into hardware pricing. The growing demand for soft financing is an important industry trend.

Many of the largest lessors and lenders in IT financing have changed as well. Industry consolidation and dot.com fallout, claimed several leading firms such as Heller Financial and Comdisco. Captives have stepped into this vacuum and now are responsible for 65% of new financing originations. According to survey participants, bank lessors are re-engaging in IT equipment financing and are expected to grow; independents, which lack the cost of funds and blind discounting advantages of the banks and captives, respectively, must find niches in which to survive, or risk a continued decline in market share.

‘Volumes are now well above their nadir at the end of 2002.’
Key industry trends identified during the study include:

- Ongoing margin compression, as in the rest of the financing industry, due to excess liquidity in the market

- "Total solution financing" – including hard and soft costs – as a requirement for most end users

- The increasing importance of the reseller channel for the sales of new equipment – and, hence, its importance to lessors and lenders as a source of financing originations

- The elongation of lease terms, as PC users struggle to use existing capacity/function and as high-end server capacity can be added with additional servers, rather than via “box-swaps”

- The greater involvement of CFOs in IT acquisition decisions and the commensurate need of vendors and lessors/lenders to embrace consultative financial selling

Survey responses also revealed certain anomalies. Despite the increased importance of resellers, few lessors/lenders recognized a different go-to-market approach is needed in selling financing through resellers, vis-à-vis vendors, as the reseller business model is fundamentally different from that of equipment manufacturers. There also was little discussion of lessors outsourcing services as a means of improving margins, despite the compressed margins in the industry. Other anomalies identified include the need to reconcile higher soft content financing volumes with revenue recognition needs, the void of effective education to train sales representatives to call on CFOs and the conflict between lessors/lenders, vendors and resellers regarding the ultimate ownership of the customer relationship.
Survey Project Results

Overview
The IT equipment leasing and financing market remains one of the largest segments of the entire U.S. leasing and financing industry. However, this stature has been impacted by slower IT equipment sales growth over the past three years (flat to < 5% per annum) and temperate forecasted growth over the next three years (5-7% per annum).

More important than the sterile growth statistics, the IT equipment leasing and financing market now reflects some of the characteristics of the broader U.S. equipment leasing and financing market. It is extremely competitive, with significant changes in competitor positions (for example, the increasing dominance of captive lessors/lenders) and impacted by changing segment drivers and major external factors (such as technological innovation and low interest rates, respectively).

But this challenging environment also presents opportunities to lessors and lenders that adopt strategies and tactics best fitting this changing market. Many of these opportunities are described, in detail, in this study.

“… this challenging environment also presents opportunities to lessors and lenders that adopt strategies and tactics best fitting this changing market”
Market Size and Growth

The total U.S. market size for IT equipment leasing and financing originations in 2005 was an estimated $38 - $42 billion based on the value of new equipment and related services acquisitions. Over the period 2002 – 2005, the annual rate of growth in the sales of IT equipment was anemic, though increasing slightly, as shown in Chart A.

Chart A – Current-Cost Net Stock of IT Equipment

The current-cost net stock of IT equipment grew from $976 billion in 2002 to $1.05 trillion in 2005.

This weak growth rate is reflected in an interesting statistic – tech stocks, which represented 34.5% of the S&P 500-Stock Index value in 2000, represent only 14.1% in 2006 – a stunning decline of 60%.

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* Source: ELA 2006 Survey of Industry Activity and Alta estimates
* Source: U.S. Department of Commerce/Bureau of Economics Analysis
* IT equipment includes computers, software, computer related services and telecommunications
* Source: The Wall Street Journal
At the same time, IT equipment leasing and financing grew significantly as a percentage of the total U.S. equipment leasing market over the period 2002-2005, reaching nearly a 22% level as shown in Chart B.

Chart B* – ELA Reported IT Equipment Leasing/Financing New Business Volumes

The dramatic growth in the percentage of industry activity over this period reflects the bursting of the dot.com bubble early in the decade and its subsequent recovery.

* Source: ELA Surveys of Industry Activity: 2003 - 2006

† IT equipment includes computers, software, computer related services & telecommunications
Personal computers (PCs) and workstations continued to represent the largest IT equipment leasing market segment with 43% of the market, or approximately $19 billion in new business volume, in 2005. Mainframes, servers and communications equipment continued their market share slide as shown by the following chart:

While there has been much discussion about increased software and computer services financing, the figures above do not yet reflect this. Software and services financing, according to the ELA Surveys of Industry Activity, have remained essentially flat for the last four years (although this data is analyzed in more detail later in this study).

The vast majority (99%) of the U.S. IT equipment leasing and financing market involves transactions under $5 million. Driven by the drop in per unit prices, nearly 50% of the market is in the small ticket and micro ticket segments as shown in the following chart:

* Micro Ticket not included in the 2002 survey

By far, the largest growth in the IT equipment leasing and financing market over the last four years has been enjoyed by captive finance companies as shown by the following chart:

**Chart E – IT Equipment Leasing and Financing Competitive Segments**

*Source: ELA Surveys of Industry Activity: 2003 - 2006*
While the forecasted growth in the U.S. IT equipment leasing and financing market for the period 2005 – 2008 is expected to be more positive than the preceding three-year period, the consensus expectation from this study is that annual growth rates will be around 5%. Using this benchmark, the overall volume growth picture is illustrated by the following chart:

In summary, overall segment volume growth is expected to improve. At the same time, the composition and segmentation of this future volume will reflect the factors and drivers discussed in the following sections of this study.

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Source: Information Technology Equipment Leasing: U.S. Market Dynamics and Outlook 2003, and Alta estimates
Key External Factors: 2001-2005

The U.S. IT equipment leasing and financing market was, perhaps, impacted more dramatically than any other equipment financing market segment by external factors over the past five years. The interview results of this study highlighted the following:

- **Dot-Com Implosion** – This factor had by far the biggest impact. It drove down new business opportunities and contributed to changes in the customers’ desire to lease IT equipment. Volume growth is only now beginning to recover. Virtually all of the interview participants referred to this factor as having had a major effect on their business volumes over the last five years.

- **Interest Rate Levels** – The low interest rate levels of the last five years materially impacted the customers’ desire to lease equipment. Leasing historically has been a counter-cyclical business – lower interest rates hurt new leasing business, while higher interest rates support new leasing volumes. More than 75% of the lessor/lender interview participants referred to low interest rates as having had a negative effect on new business volumes.

- **Cash Liquidity** – The high levels of liquidity in the economy over the last five years impacted the equipment leasing and financing business in two important ways. First, it increased the propensity for customers to purchase IT equipment, rather than finance it. Second, it provided much more capital to the financial services business than could be used to support the weak new business volume production. Approximately 50% of survey interview participants referred to this factor.

- **Transparency Issues** – Lessees and borrowers in the IT equipment segment have become increasingly sensitive to understanding exactly what financial services products will provide to them in value and total cost. Approximately 50% of the interview participants referred to this factor.

- **Regulatory Issues** – All IT industry participant groups (and virtually 100% of the interview participants) identified regulatory issues, such as Sarbanes-Oxley and possible changes in lease accounting as major external factors that impacted their financing decisions.
Major Segment Drivers
Survey participants were asked several questions about the information technology and the IT equipment financing industries, concerning industry dynamics and changes that are driving behavior among equipment leasing and financing companies. Their responses revealed an equipment market that, despite rapid technological change, is mature and exhibits the moderate-growth characteristics of many other asset classes in the United States. The most frequently mentioned segment drivers were:

• **Technology changes, for now, are reversing the trend to shorter terms.** As one respondent said, “There is nothing compelling in the PC space to encourage lessees to upgrade – they’re not using the capacity and function they have now. We’ve seen PC and workstation lease terms increase from 30 to as much as 48 months – something we wouldn’t have dreamed of a couple of years ago.” For larger products, such as enterprise servers, operating lease terms continue to decrease (respondents cited 18 to 24 month terms as common), but many customers now opt for longer term capital leases instead. “With servers, you can add capacity by adding more servers. There’s not as much upgrading or swapping going on as there was a few years ago. Servers stay installed longer, so many customers opt for longer term leases.”

• **Captives are re-focusing on asset growth and profits, as commoditization has put pressure on manufacturer margins.** Most captives surveyed are making concerted efforts to grow their asset base, as their parents increasingly look to them to help grow sales and enhance profit margins through financing. Respondents pointed to increased focus on the channel, new on-balance sheet financing capabilities, international growth, increased sales headcount and more aggressive total solution financing as initiatives they have used to grow their business.

• **Customers demand total solution financing.** “The days of box financing are over,” observed one lessor, a view shared by nearly all respondents. “Customers expect financing from one source and for the total IT solution. If we can’t provide it, our competitors will.” In the survey, 83% of resellers indicated that total solution financing is a major reason why their customers lease or finance their solutions and 100% of the resellers interviewed list it as a major reason why they offer financing. An important aspect of this is that all captives

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**Highlights/Quotes**

“The days of box financing are over.”
are willing to finance non-parent hardware, software and services offerings, but none surveyed is pursuing financing business with no parent content. This creates a niche for independent and bank lessors and lenders.

- **New business volumes increasingly are coming from the reseller channel.** Among lessors that use resellers as a source of new business volumes today, 73% believe more of their new business volumes will come from the channel and relatively less from direct sales, over the next three years. “There is a paradigm shift towards the channel under way,” observed one industry veteran. “The direct sales model is too expensive. It’s difficult to manage and it isn’t economical to pay direct sales representatives the large salaries they received in the past.” A noteworthy change in the market is the larger role resellers will play with enterprise customers over the next three years. Although resellers have been used for fulfillment for enterprise customers for several years, many survey respondents believe the channel will play an increasingly larger and more significant, role in enterprise equipment sales and marketing efforts. This is driving more lessors to focus on the channel as the main point-of-sale contact for prospective lessees.

- **There is less opportunity for residual value realization.** Lessors surveyed indicated it is increasingly difficult to establish and recover residual values. This is being driven by the continued rapid pace of technological innovation and by the commoditization of IT products coupled with their high reliability, which blurs the distinction between the various vendors and products.

- **Enterprise companies no longer make “large IT acquisitions” – they make capital expenditures.** “There is a bridge between the CIO and CFO that probably didn’t exist a few years ago,” said one respondent. Enterprise firms spend so much on information technology now that IT spending is an integral, important part of the capital budgeting process. This is driving changes in the equipment sales process, because, according to the same executive, “the sales cycle is more consultative now than it was in the past. Sales representatives have to be able to explain the impact of a large IT expenditure on financial statements as well as on the end user.” This represents both a challenge and an opportunity for equipment lease and financing firms.
Competitive Environment

Like much of the equipment leasing and financing industry, the IT segment has undergone significant change over the last five years. The order of magnitude of competitors has changed as has their relative positioning. The requirements of the market are also changing.

For the sake of convenience, this study refers to three distinct types of lessors and lenders: banks, captives and independents. In fact, the distinctions among the types are not always black and white (i.e., is the Dell Computer program a captive program or an independent program?). Listed below are representative examples of each type of lessor currently active in IT equipment leasing and financing:

**Banks**
- Bank of America
- CitiCapital
- De Lage Landen Financial Services
- Key Equipment Finance
- Suntrust Leasing
- U.S. Bank Equipment Finance
- Wells Fargo Equipment Finance
- Wells Fargo Financial Leasing

**Captives**
- Cisco Systems Capital Corporation
- Dell Financial Services
- EMC
- Hitachi Data Systems Credit
- HP Financial Services
- IBM Global Financing
- Microsoft Financing
- Oracle Credit Corporation
- Siemens Financial Services
- Sun Microsystems Global Financial Services

**Independents**
- Applied Financial
- CIT Equipment Financing
- CCA Financial
- CSI Leasing
- Forsythe McArthur Associates
- GE Commercial Finance
- GreatAmerica Leasing
- Marlin Leasing
- Relational, LLC
- TIP Capital
- U.S. Express Leasing
It is interesting to note how different the list above is from a similar listing only five years ago. Many on the former list have been consolidated, reorganized or have gone out of business; noteworthy examples include Comdisco, El Camino, GATX Technology Services, Heller Financial and LSI.

Over the last three years, captives have increased their market share from 53% to 65%, at the expense of banks and independent lessors and lenders. Survey respondents cited many reasons for this, including:

- **Commoditization** – With lower margins and increased product commoditization, manufacturers and vendors have a renewed interest in financing as a way to improve margins and increase sales

- **Channel** – The general shift from direct sales to channel sales is changing the selling landscape. The manufacturer usually has a close relationship with its channel and influences them to participate in its financing programs

- **Financial Structures, Offerings and Promotions** – Captives can develop financing offerings, such as payment deferrals and technology refresh offerings, that support their parent’s product business plans. These offerings can be difficult for non-captive lessors to replicate

- **Pricing** – Many captives work with their parent’s product divisions to develop highly competitive, low-rate financing programs, supported by blind discounts

- **Residual Value Risk** – Captives have inside knowledge on their parent’s product cycles and replacement strategy. This collaboration assists them in setting more aggressive residual values
Despite the ascendancy of the captives, all three types of lessors and lenders face challenges unique to their particular business models. Issues identified most frequently by survey respondents were:

**Bank Lessors**

- **Rising above the noise level.** Equipment leasing and financing often plays “second fiddle” to a bank’s core business and equipment lessors have to fight within the bank to get the mind share of corporate and branch banking sales representatives. Most bank lessors have much work to do to improve the use of cross-selling within the bank for equipment financing business.

- **Residual Values.** Bank loan officers, in many cases, are not yet comfortable with the concept of residual values. Many bank lessors are non-players in the residual value leasing market, though there are some notable exceptions.

- **Soft financing.** Compared to captives and independents, bank lessors usually are less-willing to fund large amounts of soft content. In light of the industry trend to total solution financing (see the Key Trends section of this report), banks will need to change, or risk losing this business to other lessors and lenders.

**Captives**

- **Gaining parent sales representative mind share.** Even in the most successful programs, captives face a significant challenge getting the parent sales representatives to market and sell equipment financing. Training, educating and motivating the representatives is an ongoing challenge for all captive lessors and lenders.

- **Alignment with parent business objectives.** Most captives must balance their own business objectives with those of their parent. Not infrequently, captives are pressured to lower their own return requirements to help the parent win a strategic customer transaction, but are expected to achieve their own
profitability targets for the quarter or year. Some captives minimize this problem by having a break-even profit objective, but this was not the case with most of the survey respondents.

- **Meeting customer requirements within parameters set by the parent.** Most captives use guidelines regarding the amount of non-parent content they are willing to finance in a given transaction. Captives interviewed for the survey noted this can cause them to appear unresponsive to customers desiring a single financing source for their IT equipment needs and can cause the captive to lose profitable business to independent lessors/lenders or to other captives.

**Independents**

- **Cost of funds.** Other than for the very largest firms, most independents suffer a cost of funds disadvantage versus bank and captive lessors/lenders. Independents not only must find a niche of expertise to be successful, but must outperform other independents within their chosen niche as well.

- **Technological change is eroding the attractiveness of some existing niches.** Adding additional processing or storage capacity no longer automatically requires an equipment swap; in many cases, additional blade servers or storage devices can be added without interrupting service to end users. As a result, customers can utilize existing equipment for longer periods, which has led to longer financing terms. This reduces the opportunity to sell operating leases, which has been a particularly attractive specialty of independent IT lessors for many years.

- **The battle for account control.** Vendors and resellers increasingly see the financing portfolio as a means of greater account control. Most independents, however, have been reluctant to cede unfettered access to the portfolio, as they risk losing the ability to sell profitable mid-term lease extensions and rollovers. This has created conflicts with vendors and resellers and the trend is likely to increase in the future.
Key Trends
Survey respondents provided a large variety of observations concerning trends and directions of the IT equipment financing industry. For ease of reference, the most frequently-cited trends are listed below and sorted into two categories: Industry Trends and Trends Among Lessors and Financers.

Industry Trends
1. **Total solution financing.** Lessors noted the trend towards total solution financing – defined as the financing of bundled hardware, software and services solutions – almost universally among respondents:
   - 95% identified total solution financing as a key trend in the industry and many viewed it as a requirement to be involved with IT equipment financing
   - 77% of lessors said demand for complex offering bundles (including both soft financing and extended delivery/installation/completion dates) was high
   - 83% of resellers surveyed said total solution financing is a major reason their customers choose to finance their products

One interesting note is that this trend does not show up in the most recent ELA Survey of Industry Activity statistics. According to the 2006 survey, only 15% of total IT financing volumes was from software and services, down slightly from 16% in 2002 and 17% in 2004 (see page 12, Chart C of this report). However, “that may be misleading,” said one lessor. “There are a lot of soft costs buried in so-called ‘hardware’ – for example, storage system products often include storage management software and management services costs embedded in the hardware costs.” This view was shared by several lessors, although it raises questions as to how accurate lessors’ internal asset management systems and associated asset risk parameters, may be.

Highlights/Quotes

“Lessors noted the trend towards total solution financing – defined as the financing of bundled hardware, software and services solutions – almost universally.”
2. The decreasing role of operating leases in the industry. Respondents cited several trends contributing to the decrease in the number and proportion of operating leases in the IT equipment leasing industry:

- The availability of ample, affordable capital, due to low interest rates, strong corporate balance sheets and the presence of hedge funds in the equipment financing industry
- The trend towards longer equipment retention and, hence, longer lease terms
- The difficulty in developing and recovering residual values
- Lessee concerns about off-balance sheet financing in light of Sarbanes-Oxley and the trend towards greater transparency in financial reporting

Respondents noted, however, “operating leases are by no means dead” and the trend presents an opportunity for experienced operating lessors to grow assets if they have the requisite experience and personnel.

3. Finding qualified personnel is a challenge. 54% of survey participants believe it is more difficult to find qualified personnel than it was five years ago. Despite industry consolidation that has eliminated many positions, one lessor opined, “I’ve found that it’s hard to find people with recent, relevant experience. There are many people out there that knew credit or direct sales in 2000, but they don’t understand today’s environment – for example, the dynamics of working with the channel.” International markets tend to be more difficult for recruiting than in the United States.

Captives had fewer problems than other lessors at finding resources, given the talent pool of their parent companies, although one captive spoke for many when he observed, “Finding good people is not the problem. Finding
potential leaders that will be running this business in five to seven years is a huge problem, though. [Our parent] simply does not invest in leadership development the way they used to and we have to compete with our parent for the ‘high-potentials’ in the company. Unfortunately, we don’t get as many as we need.”

4. Involvement of the customer CFO. More and more, customer CIOs and CFOs collaborate on IT acquisitions, given their impact on the company’s capital structure. For the equipment lessor/lender, this represents an opportunity to work more closely with key customer executive decision-makers. But the move to increased use of the channel by IT manufacturers means more reseller sales representatives, who often lack the training and sophistication of direct product sales representatives, need to make those sales calls – and many do not. This represents a challenge for IT equipment financing firms.

5. Asset management. “Comprehensive end of lease equipment management will be a competitive requirement [for IT equipment lessors],” said one lessor. “This will include de-accessioning services, not just residual value management.” Several respondents have made investments in asset management systems and services over the last three to five years, “and we view this as a critical part of providing a life cycle solution to our customers,” stated another lessor. “We believe we can link seamless asset management with financial services and this provides constant [equipment] refresh for us and for the vendor.”

6. Niche growth opportunities. Many respondents cited specific opportunities for large, new financing volumes in certain niches. Typical of the comments made during the survey is this observation from a captive lessor: “The growth in storage products is nothing short of phenomenal,” he said, “and even with rapid per-unit price declines, we’re seeing a large increase in storage product origination volumes.” Several lessors also observed that data center consolidation, in which multiple server and storage “farms” are consolidated into a single facility, often can result in large, new financing volumes. Other

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**Highlights/Quotes**

“More and more, customer CIOs and CFOs collaborate on IT acquisitions.”
opportunities cited among survey participants were Intel servers (particularly blades), telecommunications, security products and standalone software financing.

7. The demand for utility computing has not yet materialized. “There’s a lot more push than pull for this product,” said one lessor. Although demand for utility computing has increased, according to 41% of respondents, few products are in the market today – and most are provided by captives. Most lessors surveyed indicated they are taking a wait-and-see approach with utility computing, although one software financing specialist cautioned, “we're watching pay-per-use software trends very carefully. It’s gotten a lot of publicity in the trade press and, while we think it’s still a a few years away, there could be major ramifications for the revenue flow of the software manufacturers if it catches on.”

8. The management of data centers is changing. More end-user customers are consolidating and/or outsourcing the management of their data centers. Outsourcing and managed services are moving the acquisition of computer processing and services away from the end user customers and to outside providers. These service providers, which are located both domestically and overseas, are now acquiring large amounts of IT hardware, software and services that, previously, were purchased or financed by the end user. This represents a fundamental change to lessor/lender risk parameters in the important areas of credit, residual realization, sovereign and even currency risk.
Trends Among Lessors and Financiers

1. **Higher IT financing volumes are anticipated.** Not surprisingly, 95% of lessors/financers surveyed anticipate higher IT financing volumes over the next three years. By equipment/asset type, respondent predictions were as follows:

- 45% see growth in PCs and workstations
- 20% see growth in mainframes and servers (but 20% see a decline)
- 35% see growth in storage devices
- 25% see growth in networking equipment
- 85% see growth in software financing
- 100% see growth in services financing

2. **Profits generally are up,** although some respondents noted this is due to cleaning up bad debt and focusing on expense control, rather than new volume growth. 54% reported higher profit levels versus five years ago and 23% said profits were flat over the same period.

3. **Captives are cited by independents and bank lessors as their main competitors.** “If one of the captives wants to win a deal, they’re going to win the deal,” said one independent lessor. “We can’t compete with their blind discounts, so we’ll re-direct our efforts if we recognize that particular situation.” Captives surveyed acknowledged they seldom lose deals they want to win and view cash and inertia as their major competitors.
4. **There is an almost universal focus on the reseller channel.** Only 7% of lessor respondents believe their percentage of new financing business from direct sales (versus resellers) will be higher three years from now than it is today. This mirrors the trend in the IT industry to use resellers for more and more new business volumes.

This trend poses new challenges for IT equipment financers, although some may not yet recognize its importance. A handful of financers see this as a meaningful and significant differentiator among lessors/lenders. One captive stated, “Our parent ‘gets’ channels – they understand how they work and how to work with them. I don’t think a lot of lessors understand the dynamics of working with resellers and how different it is from working with a vendor. And I think that’s a reason why penetration rates traditionally are lower – much lower – through the channel than they are for direct sales.”

5. **International growth.** 60% of lessors surveyed plan growth in international markets over the next three years. There is particular interest in Eastern Europe and Latin America and less interest in Asia and Western Europe as many lessors view these as more mature, slower-growing markets.

6. **Efforts are under way to improve the point-of-sale process.** Bank and captive financers both benefit from their large pool of prospective clients – bank and vendor customers, respectively – to which they have access through their parent firm. However, there is a growing acknowledgement that the financing companies do an inadequate job of leveraging the parent sales force to sell leasing and financing. “Our penetration rates have been static for several years,” said one captive, “and we need to do a much better job of growing our ‘mind-share’ among our parent’s sales representatives and resellers to sell financing.” Captives historically have relied on internal training programs to do this, but several survey participants indicated they are developing new ways to reach the sales representatives, such as promotional offerings and e-learning sales training.

Banks have an arguably tougher job. “It’s hard to rise above the noise level within the bank to get any attention focused on lease financing,” said one bank leasing executive. “The bank offers so many financial products and it’s hard to get branch or corporate banking representatives to pay attention and learn what we can offer.”
Future Threats and Opportunities
The interview participants provided an interesting range of views on the future in the IT segment. The issues most often addressed include:

Threats

- **Potential Future Accounting Changes** – The changes in operating lease treatment currently under discussion within the accounting and regulatory communities present a huge element of uncertainty; this is an issue for many IT lessors, even though the number of IT operating leases is in decline.

- **Commoditization** – Without a doubt, there has been greatly increased commoditization within the IT segment and IT equipment leasing and financing segment, over the past five years. The concern among some segment participants is that commoditization will accelerate in the future, robbing the segment of the ability to provide non-price-related value propositions and to earn superior investment returns.

- **The Impact of Soft Content** – Leases and loans within the IT segment over the past several years include greatly increased percentages of soft content and, according to survey participants, the trend is expected to increase in the future. A major challenge might be whether such soft content constitutes a service contract-like structure, rather than a contractually amortizing lease or loan. This issue could impact if or how such transactions are funded by lessors and lenders and how the related income is recognized.

- **Very Competitive Environment** – The IT segment includes three groups of highly competitive financial services providers: the captives, who are pursuing a holistic strategy with their parent companies; the banks, who are pushing market share and selling their competitive cost of funds; and, the independents, who are focusing on the development of specialized products and target niches. And, all this in a market segment for which tepid growth is expected…it will be a competitive, difficult environment.
• **Execution Risk** – As discussed in this report, major segment trends include the need to successfully penetrate the indirect sales channel and, generally, to achieve significant improvements in operating efficiencies. The achievement of these two objectives is not a given and represents real threats to some competitors.

• **Basel II** – While the full impact of Basel II on lessors and lenders is not yet known, the proposed capital requirements for residual positions may substantially impact the competitive position of lessors in the IT segment. A lessor that is required to allocate capital at 100% of the assumed residual value in a lease will be at a distinct disadvantage to the lessor that does not have this requirement.

**Opportunities**

• **Size** – Even at growth rates that are lower than its historical performance, the IT segment will remain one of the largest within the equipment leasing and financing market. It will continue to represent a large market opportunity for volume growth.

• **Differentiating Products** – The interview work for this study produced unanimity in responses that emphasized the importance of integrated solutions and bundled services. In the IT segment, this means financing soft assets in addition to hardware. One set of winners in the future competition will be those lessors or lenders that develop the best financial services products to meet these needs.

• **International Growth** – While not every lessor or lender is strategically focused on expanding their IT equipment leasing and financing services to new, international markets, many are. Those that choose their targets and their entry tactics wisely will see increased volume and vendor relationship opportunities.

• **Operating Efficiency** – At least some portions of the IT segment will remain very price competitive with continuing margin pressures. Those lessors and lenders that can drive their growth, controls and service levels with declining relative operating expense levels will find continuing market share and earnings opportunities.
Survey Analysis

As the survey responses, data and participant observations were compiled during the course of the study, several anomalies arose upon analysis.

For example, almost all lessors/lenders indicated plans to sell more financing through the resellers, yet few mentioned the fundamental business model differences between vendors and resellers and whether this will affect how financing is sold through this channel (the authors believe it will). Or, another example: CFOs are becoming more active in IT equipment acquisition decisions, yet very few vendor or reseller sales representatives have the requisite skills to make an effective call on a CFO. Who will make these CFO sales calls and how will the sales representatives get the necessary training to make these calls? Almost none of the respondents identified this as a potential issue.

The authors of this study have listed several of these anomalies, including the two above, in the section below, together with analyses of how lessors/lenders might approach and develop solutions to these issues.

Channel Sales Plans

Lessors should examine their channel sales plans carefully. Nearly all lessors surveyed indicated plans for expansion of their sales efforts into the IT reseller channel, to mirror the trend among IT manufacturers. Interestingly, none cited any specific, planned changes in marketing strategy for selling equipment financing through channel sales representatives and call centers, versus the way they sell financing today through direct sales representatives.
This is counterintuitive, given that the reseller business model is fundamentally different from IT manufacturers. In the survey, resellers were asked an open-ended question: “Over the last five years, what have been the key benefits of selling equipment financing for you?” Among the responses:

- 100% cited the ability to offer customers a total financing solution
- 100% pointed to a reduction in the reseller’s days sales outstanding (DSO)
- 83% cited the fact that leasing effectively expanded their credit line capacity
- 50% stated that it reduces their A/R risk

Almost none of the lessors surveyed indicated plans to market to these needs, with the lone exception of total solution marketing. Another need cited by 83% of the resellers surveyed was sales force training, specifically including how to call on a financial executive. Few of the lessors in the survey indicated plans to provide training, other than promoting lease offerings at sales meetings. These needs should be more fully analyzed.

**Operating Expense Reduction**

Lessors and lenders should think “paradigm shift” when targeting operating expense reductions. Most lessors and lenders surveyed indicated a major objective was to substantially reduce their operating expense levels in order to remain competitive and to earn acceptable returns. As one captive lessor stated, “We have to get our operating expense to asset ratio below 2%.”

While increasing operating efficiencies may be both a worthy and necessary goal, there are at least two equipment leasing and financing industry characteristics that may get in the way. First, at least 60% - 70% of operating expenses are
concentrated in people costs. Second, the equipment leasing and financing industry’s OpEx/Assets ratio has not changed much over the years.

This doesn’t look like a problem that can be solved by half measures. One solution may be lessor/lender consolidation which can quickly produce operating expense reductions while increasing assets at the same time. This solution, however, will not be available to everyone.

Any other solution(s) must include some combination of increasing assets at substantially higher growth rates than increasing operating expenses and substantially decreasing operating expenses while growing assets in a more normal range.

As previously discussed in this report, substantially increasing asset growth rates outside of consolidation in such a competitive environment will be difficult. A strategy with a higher percentage of potential success will be to reduce operating expenses.

The big question is, how can this be done when such reductions most likely will include personnel costs? While each lessor and lender must consider its own situation, one alternative worth considering is outsourcing some or all of the “back-office” functions to a service provider that can quickly provide materially lower operating expense levels. Such outsource companies may provide services both from domestic and from off-shore locations.

Numerous off-shore outsource service providers are looking at new business opportunities in the U.S. equipment leasing and financing industry. A few U.S. lessors and lenders are currently using such services. Such a “paradigm shift” should be considered carefully.
Soft Content Issues

Lessors and lenders should analyze how best to manage the increasing "soft content" of lease and loan transactions in the U.S. IT segment. More than 75% of all survey responses included a discussion of the increasing importance of "soft content" (primarily software and services) in IT lease and loan transactions.

Historically, most lessors and lenders addressed the issue of soft content simply by limiting the percentage of such costs to a small percentage of the overall transaction (e.g. 15%). The problem is that such a simple approach is not likely to work very well in the future, as soft content represents an increasingly larger percentage of transactions.

However, simply accepting higher soft content percentages may be a dangerous tactic. There are many issues to consider, including:

- **Maintaining a competitive position** – not providing soft content financial services products may limit segment volume opportunities.

- **Increased credit risk** – most soft content cannot be repossessed or re-sold, which leads to a larger unsecured position.

- **Income recognition considerations** – much of the "soft content" items are provided over time and may require different revenue recognition applications.

- **The impact on portfolio funding** – soft content leases or loans may require changes in lessor and lender loan agreements and securitizations.

- **Legal and regulatory issues** – soft content leases or loans may take on the characteristics of service contracts. Service contracts may have materially different legal and regulatory issues for some lessors and lenders.

These issues should not deter lessors and lenders from reacting to the market opportunity presented by greater soft content transactions. They should, however, be thoroughly investigated.
Independent Lessors/Lenders

Independent lessors are being squeezed by captives and bank lessors and will need to find viable industry financing niches in order to survive.

Survey responses indicate captives are becoming increasingly aggressive in efforts to grow their penetration rates and financing origination volumes. They are being driven to do so by their parents, which see financing as a way to improve new business volumes and profitability in an increasingly commoditized industry. Tactics being used by the captives include increasing use of blind discounts, new offering development, adding incremental sales resources, adding new on-balance sheet capabilities and redoubled efforts to engage direct and channel sales representatives to market equipment financing.

At the same time, bank-owned equipment lessors/financers have a significant cost of funds advantage over almost all independents. In addition, banks are working hard to leverage their branch and corporate banking sales teams to market equipment financing to bank customers. While these efforts have produced mixed results to date, bank survey respondents indicate this is an area of focus for them and it is reasonable to believe their efforts will produce some degree of future success.

Independents lack the advantages of having a vendor parent, or of access to the low funding costs of banks. To be successful, independents will need to identify and develop expertise in specific industry niches are underserved today, or they will slowly fade from the IT equipment financing scene. The magnitude of this challenge is compounded because a traditional area of industry expertise for independents – operating leases for large servers and systems – is in decline.

Independents surveyed generally agreed with this assessment. Among the types of niches now being considered by some independents are:

- Specific industries, such as healthcare (with complex reimbursement policies) and government (a highly-regulated environment)
• Asset-specific financing products, such as software-only leases and loans

• Lower credit-rated customers, primarily sub-prime or unrated companies

• Business sourced from underserved sales channels, such as resellers with low revenues or manufacturers’ representatives

• “Relationship selling,” in which the lessor/lender develops a close relationship with its clients and arranges multiple types of financing for them (although this is a particularly difficult model to scale)

**Consultative Selling Model**

Successful lessors and lenders will develop and focus on a consultative selling model for their key customers. The evolution of IT spending into a major capital expense for most large companies and the subsequent, tighter integration of IT spending into the overall capital budgeting process, means CIOs and CFOs now work more closely together. Successful lessors and lenders need to work with both parties to show how equipment leasing and financing can play an important role in a company’s capital budgeting process.

The challenge for lessors and lenders is how to do this effectively. Many, or most, vendor or reseller sales representatives lack the requisite skills to call on a CFO and, while the equipment financing sales representative can help, it may be difficult to leverage the representative across multiple customers and geographies. Survey participants identified the need for better vendor and reseller financial sales training as a solution to this problem. While this is true, few indicated the commitment to do this to the degree necessary – for example, by conducting full-day financial selling training seminars for vendor and reseller representatives. The failure of vendors and resellers to develop sales representatives capable of consultative financial selling at the CFO level will retard the growth of product sales – and financing sales – at their enterprise customers.
Small Ticket Processes
Lessors/lenders must develop effective low-touch processes and systems to facilitate small-ticket IT transactions. Several of the survey participants mentioned recent investments they have made in Internet-based, front-end systems for small ticket financing on-line application, credit scoring and document delivery. “Net-based systems aren’t a competitive advantage anymore. They are a requirement for market entry,” said one independent lessor. With average equipment purchase prices and transaction sizes decreasing, many IT lessors/lenders either are developing these capabilities internally, or are considering the outsourcing of these services to third party specialists.

Interestingly, that may not be enough. One reseller with significant financing experience and high financing penetration rates said, “They [equipment lessors and lenders] still don’t get it. They have automated the front end, which is good, but there are no portfolio management tools available to us. We have to go through our lessor partners to find out when leases expire, what lease rollover charges are and so on. Their process is manual, takes too long and is not timely – we often don’t hear back for days. This needs to be online and available to us 24/7. And this is where the real power of equipment financing lies!”

Independent lessors, in particular, traditionally have viewed portfolio information as their own. The issue of information ownership is symptomatic of the larger issue of whether the vendor/reseller, or the lessor/lender, owns the end user customer. This is a central topic both for independent lessor/lenders and for captives and bank financiers that market financing through resellers.

As more vendors and resellers gain experience with equipment financing and learn what a powerful tool it is, there will be increased demand for portfolio information.
Some captives have begun to provide this information to their resellers, but few of the independent lessors interviewed in the survey have done so. As reseller-sourced IT equipment financing volumes increase in the years ahead, lessors and lenders will need to resolve the issues of account ownership and of systems and associated information sharing, with their vendor and reseller partners.
Appendix A: Survey Questions Templates

The following are three samples of the questionnaires used during the interviews. Captives, banks, independents, manufacturers, distributors, VAR and stakeholder/consultants were participants in this survey.

ELA IT Market Study Captive Lessors Questionnaire

Demographics

1. What was your IT equipment leasing volume for each of the last five years? Please provide volume by major product category. If specific $ volumes are considered proprietary, please provide your segment % and your Compound Annual Growth Rate (CAGR) for the last five years:

   - PC & Workstation _____________________________________________________________
   - Mainframe & Server ___________________________________________________________
   - Storage Device _______________________________________________________________
   - Networking Equipment _________________________________________________________
   - Software ___________________________________________________________________
   - Other _______________________________________________________________________

2. Are your IT assets greater than/the same/less than five years ago? Are you achieving satisfactory IT asset growth? If not, what are you doing to improve your asset growth (i.e. more investment, buying portfolios/syndication participation, considering more software/services financing, changing risk parameters, etc.)?

3. What was your lease/finance penetration rate (a/k/a attachment rate) for each of the last five years? If specific %’s are considered proprietary, please provide the change factor (+ or -) for each of the last five years: (Captives only)

   - PC & Workstation _____________________________________________________________
   - Mainframe & Server ___________________________________________________________
   - Storage Device _______________________________________________________________
   - Networking Equipment _________________________________________________________
   - Software ___________________________________________________________________
   - Other _______________________________________________________________________

4. What was your FTE headcount for each of the last five years?

5. Is it easier/harder/the same to find qualified IT financing personnel? Does this vary by geography, and, if so, how?

6. For each of the last five years, what percentage of your financing volume was outside the U.S.? Is it increasing/ the same/ decreasing? What geographies are growing most quickly? Are you doing financing in China or India?
ELA IT Market Study Captive Lessor Questionnaire, continued

7. Over the last five years, has your profitability performance:
   • Gone up _____________________________________________________________
   • Gone down __________________________________________________________
   • Stayed about the same _______________________________________________

Business Model

8. In the last five years, did you make any significant “go to market” changes? If so, generally what were they?

9. In the last five years, were there any changes in your industry that caused you to alter your business plan? If so, generally what were they?

10. Over the last five years, has your reliance on a direct sales model or channel sales model changed? If so, how? What is your present delivery model reliance %:
   • Direct Sales Model ___________________________________________________
   • Channel Sales Model _________________________________________________

11. Over the last five years, has your equipment product mix changed? If so, how?

12. Over the last five years, has your financial product mix changed? If so, how? What is your present breakdown:
   • Finance Lease _______________________________________________________
   • Residual-Based _____________________________________________________

13. Has the demand for utility or usage-based computing (and financing) increased/stayed the same/or decreased?

14. Has the demand for software financing increased/stayed the same/or decreased? Is your company doing more/the same/or less?

15. Has the demand for services financing increased/stayed the same/or decreased? Is your company doing more/the same/or less?

16. Over the last five years, what have been your biggest business concerns?

17. Over the last five years, what have been your biggest business opportunities?

18. Over the last five years, what have been the most significant competitive threats?

19. Over the last five years, what are the most significant “tools” you have added to augment your business?
20. Over the last five years, were there any changes in your industry that caused you to alter your business plan? If so, what were they?

21. Over the last five years, what were the significant trends that affected your business?

**Future Outlook**

22. Over the next three years, do you expect your IT new business volume to:
   - Increase
   - Decrease
   - Stay About the Same

23. Over the next three years, do you expect your IT penetration rates to:
   - Increase
   - Decrease
   - Stay About the Same

   **Forecasted Penetration Rates:**
   - PC & Workstation
   - Mainframe & Server
   - Storage Device
   - Networking Equipment
   - Software
   - Other

24. Over the next three years, do you expect your IT new business volume outside the U.S. to:
   - Increase
   - Decrease
   - Stay About the Same

25. Do you expect any significant business model changes over the next three years? If so, what are they?

26. Over the next three years, on which key IT market segments will you focus your resources?

27. Over the next three years, what do you see as the key IT market segment trends?

28. Over the next three years, what do you see as the key IT market segment competitive threats?

29. Over the next three years, what do you see as the key IT market segment tools, resources or actions that will support your profitability objectives?
30. Over the next three years, do you expect your equipment product mix will change? If so, how?

- PC & Workstation
- Mainframe & Server
- Storage Device
- Networking Equipment
- Software
- Other

31. Over the next three years, what do you expect your delivery model % to be:

- Direct Sales Model
- Channel Sales Model

32. Over the next three years, will your financial product mix change? If so, how? What do you expect your product breakdown to be:

- Finance Lease
- Residual-Based

33. What other critical, future factors should your industry consider?
ELA IT Market Study Target VARs, SP2s and Dealers Questionnaire

Demographics
1. What was your IT equipment leasing volume for each of the last five years? Please provide volume by major product category. If specific $ volumes are considered proprietary, please provide your segment % and your Compound Annual Growth Rate (CAGR) for the last five years:

- PC & Workstation
- Server
- Storage Device
- Networking Equipment
- Software
- Other

2. What was your lease/finance penetration rate (a/k/a attachment rate) for each of the last five years? If specific %’s are considered proprietary, please provide the change factor (+ or -) for each of the last five years: (Captives only)

- PC & Workstation
- Mainframe & Server
- Storage Device
- Networking Equipment
- Software
- Other

3. For each of the last five years, what percentage of your financing volume was outside the U.S.? Is it increasing/ the same/ decreasing? What geographies are growing most quickly? Are you doing financing in China or India?

4. Over the last five years, what are your key benefits of leasing?

5. Over the last five years, what % of your leasing was executed by a Captive Leasing Company vs. Independent Leasing Companies?

6. Why do your customers lease?

Business Model
7. In the last five years, did you make any significant “go to market” changes? If so, generally what were they?

8. In the last five years, were there any changes in your industry that caused you to alter your business plan? If so, generally what were they?

9. Over the last five years, has your equipment product mix changed? If so, how?
10. Over the last five years, has your financial product mix changed? If so, how? What is your present breakdown: Is it different for deals under $200K?

- Finance Lease
- Residual-Based

11. Has the demand for utility or usage-based computing (and financing) increased/ stayed the same/ or decreased?

12. Has the demand for software financing increased/stayed the same/ or decreased? Is your company doing more/the same/ or less?

13. Has the demand for services financing increased/stayed the same/or decreased? Is your company doing more/the same/ or less?

14. Over the last five years, why did you offer financing?

15. Over the last five years, what have been your biggest business concerns?

16. Over the last five years, what have been your biggest business opportunities?

17. Over the last five years, what have been the most significant competitive threats?

18. Over the last five years, what are the most significant “tools” you have added to augment your business?

19. Over the last five years, were there any changes in your industry that caused you to alter your business plan? If so, what were they?

20. Over the last five years, what were the significant trends that affected your business?

Future Outlook

21. Over the next three years, do you expect your IT new business volume to:

- Increase
- Decrease
- Stay About the Same
22. Over the next three years, do you expect your IT penetration rates to:

- Increase
- Decrease
- Stay About the Same

Forecasted Penetration Rates:
- PC & Workstation
- Mainframe & Server
- Storage Device
- Networking Equipment
- Software
- Other

23. Over the next three years, do you expect your IT new business volume outside the U.S. to:

- Increase
- Decrease
- Stay About the Same

24. Do you expect any significant business model changes over the next three years? If so, what are they?

25. Over the next three years, on which key IT market segments will you focus your resources?

26. Over the next three years, what do you see as the key IT market segment trends?

27. Over the next three years, what do you see as the key IT market segment competitive threats?

28. Over the next three years, what do you see as the key IT market segment tools, resources or actions that will support your profitability objectives?

29. Over the next three years, do you expect that your equipment product mix will change? If so, how?

- PC & Workstation
- Mainframe & Server
- Storage Device
- Networking Equipment
- Software
- Other
30. Over the next three years, will your financial product mix change? If so, how? What do you expect your product breakdown to be: Will it be different for under-$200K deals?

- Finance Lease ____________________________
- Residual-Based ____________________________
- Other (Credit Cards, etc.) ____________________

31. What other critical, future factors should your industry consider?

32. Over the next three years, what will be the key lessor requirements that will help you make your business objectives?

33. What are the most important actions your lessor can execute to help drive your future business? Lower rates, improved turnaround time, larger fees, lease structures that match your customer needs and other? Are the actions different for under-$200K deals?
ELA IT Market Study Target Stakeholders Questionnaire

Perspective
1. What have been the key demographic developments in the IT equipment leasing/financing market in the last five years?

2. What have been the key trends in the IT equipment leasing/financing market in the last five years?

3. What have been the key competitive factors in the IT equipment leasing/financing market in the last five years?

4. What have been the key equipment valuation considerations in the IT equipment leasing/financing market in the last five years?

5. What have been the key capital market considerations in the IT equipment leasing/financing market in the last five years?

6. Have there been key business model changes in the IT equipment leasing/financing market in the last five years? If so, what were they?

7. Have there been key equipment product changes in the IT equipment leasing/financing market in the last five years? If so, what were they?

8. Have there been key financing product changes in the IT equipment leasing/financing market in the last five years? If so, what were they?

9. Have there been key, new tools, resources or competencies necessary to compete in the IT equipment leasing/financing market in the last five years? If so, what were they?

Prospective
10. What do you expect to be the key demographic developments in the IT equipment leasing/financing market in the next three years?

11. What do you expect to be the key trends in the IT equipment leasing/financing market in the next three years?

12. What do you expect to be the key competitive factors in the IT equipment leasing/financing market in the next three years?

13. What do you expect to be the key equipment valuation considerations in the IT equipment leasing/financing market in the next three years?

14. What do you expect to be the key capital market considerations in the IT equipment leasing/financing market in the next three years?
15. Do you expect there will be key business model changes in the IT equipment leasing/financing market in the next three years? If so, what will they be?

16. Do you expect there will be key equipment product changes in the IT equipment leasing/financing market in the next three years? If so, what will they be?

17. Do you expect there will be key financing product changes in the IT equipment leasing/financing market in the next three years? If so, what will they be?

18. Will there be key, new tools, resources or competencies necessary to compete in the IT equipment leasing/financing market in the next three years? If so, what will they be?
Appendix B: Survey Response Data

Data Points from the Questionnaire
The following data points were gleaned from the respondents during the interviews. Participants’ answers were tallied to determine the percentage of respondents who believed the data was important to the results of the study.

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<th>Business Model Changes, Tools &amp; Trends</th>
<th>Percentage of Respondents</th>
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<td>Services and Project Financing</td>
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<th>Competitive Threats/Business Concerns</th>
<th>Percentage of Respondents</th>
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<td>Customer Outsourcing</td>
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<td>Interest Rates</td>
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## Business Opportunities and Focus Areas

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<th>Business Opportunities and Focus Areas</th>
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<td>*Front Office</td>
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<td>*Marketing</td>
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<tr>
<td>Sales Integration with Channel Rep (Buy-In)</td>
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<td>Sales Integration with Parent Rep (Buy-In)</td>
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<td>Cost Cutting</td>
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<td>Managed Services</td>
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<td>VAR Loyalty (Value Proposition)</td>
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<tr>
<td>Back Office Automation</td>
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<tr>
<td>Software Subscription Leases</td>
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<td>Small Deals Through Alternate Channels</td>
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<td>Marketing Programs</td>
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## Survey Response Data, continued

### Distributors and VARS/Resellers – Users of Lessors

<table>
<thead>
<tr>
<th>Benefits of Leasing</th>
<th>Percentage of Respondents</th>
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<td>DSO Reduction</td>
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<td>Total Solution Process and Structures</td>
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<tr>
<td>Expand Credit Line Capacity</td>
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<tr>
<td>Flexible Structures</td>
<td>67</td>
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<tr>
<td>Limit A/R Risk</td>
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<table>
<thead>
<tr>
<th>Why Customers Lease? Benefits</th>
<th>Percentage of Respondents</th>
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<td>Simplifies Budget</td>
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<td>Total Solution Financing</td>
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<td>Off Balance Sheet Financing</td>
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<tr>
<td>Avoids Risk of Obsolescence</td>
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<td>Preserve Line of Credit</td>
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<td>Asset Line of Credit</td>
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<thead>
<tr>
<th>Requirements of Lessor</th>
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<tr>
<td>Low Touch Small Ticket Front End Process</td>
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<td>Speed to Market</td>
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<td>Captives Need to Share Back End Products</td>
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<td>VAR and Reseller Need Lease Sales Training</td>
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<td>Lease Training Needs to Include Calling on CFO</td>
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<td>Portfolio Support</td>
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<td>Increase Fees – Fees Lack Incentive to Drive Reps</td>
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<tr>
<td>Appetite for Soft Financing</td>
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<td>Residual Value for Commodity Products</td>
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