

15 Critical Success Factors

for your equipment
leasing program



Executive summary

Equipment leasing, when managed effectively, can offer a number of strategic financial and competitive benefits to your business. Leasing enables better use of cash flow and offers more budget flexibility. Additionally, leasing can provide a competitive advantage through faster refresh of technology. Arming your employees with the latest IT, material handling or manufacturing technologies can provide a productivity boost.

But the equipment lease lifecycle is inherently challenging to manage.

That's why companies choose lease lifecycle automation platforms to manage the process from end-to-end. The right software platform takes out the cost and risk of staying compliant so you can focus on the cash flow benefits of leasing.





Make leasing
easier

Leasing is complex.
70%
of leases change
every year

There are at least 40 required lease attributes to track and leases can be almost anywhere across an organization. And then there are the evolving standards to manage.

For over a decade, LeaseAccelerator has helped some of the world's largest companies get the most out of highly-decentralized, complex leasing programs. During our engagements we have identified a set of 15 critical success factors that best-in-class companies use to manage their equipment leasing program. Some of these critical factors start before the lease is even executed during the sourcing and contracting phase, while others relate to the end-of-term such as lessor notification and reverse logistics. In the pages that follow we will share our recommendations on best practices and critical success factors.



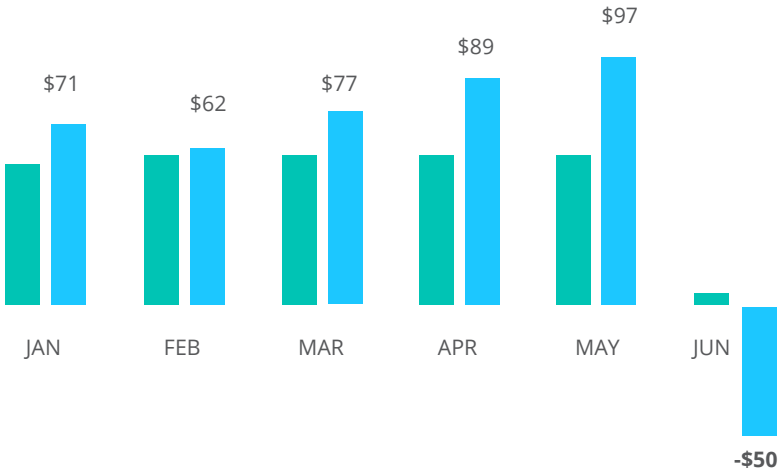
Business processes

#1 Conduct lease versus buy analysis

Require a lease versus buy decision to be conducted for each new equipment lease under consideration. A key to success will be making the process un-intimidating for non-financial users. Consider offering an easy-to-use tool for non-financial stakeholders to request an analysis. The analysis should be centrally controlled to ensure that the latest market rates and financial variables (e.g. WACC, IBR) are being used.

Standardization of the lease versus buy analysis will not only ensure that your company always makes the best economic decision, but it will keep you out of trouble during Sarbanes Oxley audits. Auditors will be able to determine that adequate procedures and controls are in place.

Net Cash Flow After Tax





Competitive Marketplace

Lessor
Rate = N
Residual = A

Lessor
Rate = N+1
Residual = B

Lessor
Rate = N+2
Residual = C

#2 Source leases competitively

Put equipment financing out to bid to ensure that you get the most competitive financing rates and contract terms.

Generate an RFP with requirements such as the lease term, currency and end-of-term options you are seeking. Distribute the RFP to your preferred lessors or a competitive marketplace of banks, vendor captives and independent leasing companies.

#3 Standardize contracts

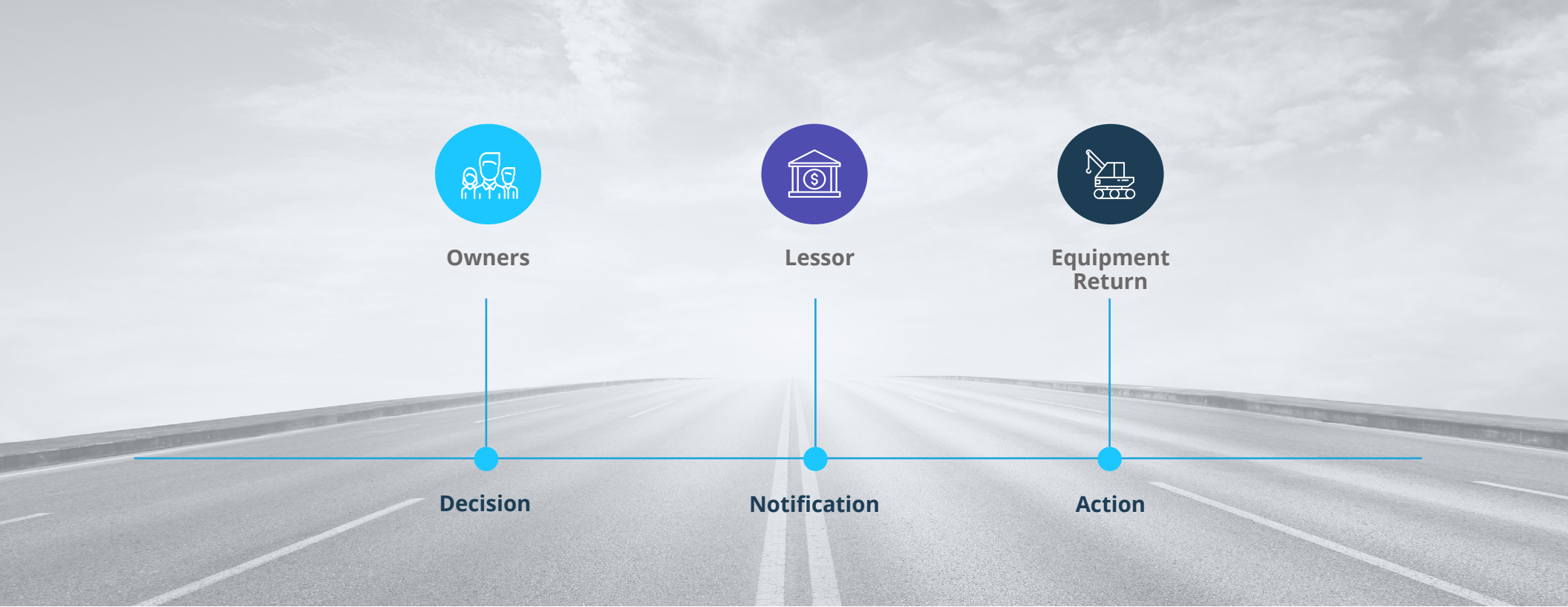
Many end-of-term challenges start before the lease is even signed. Some lease contracts have unfavorable end-of-term buyout prices or renewal terms. Others might have unreasonable return provisions such as returning gear in the original packaging or shipping to remote locations. With poor contractual terms, you may be setting yourself up to fail, no matter how proactively you manage end-of-term notification deadlines.

Avoid terms like “all” and “mutual.” If you have a lease with 500 laptops, you don’t want to discover that you must either return them all or buy them all out at a mutually agreed upon price (i.e. a price defined by the lessor). Consider standardizing your leasing terms and conditions across all lessors to avoid surprises.



Standardized Contract





#4 Manage end-of-term

Proactively manage end-of-term decisions and actions to minimize cost leakage. Start by carefully negotiating the lease terms. Limit evergreen fees. Review the fine print for end-of-term buyouts, returns and renewals. Configure notifications to automatically alert stakeholders of upcoming end-of-term deadlines and options to return, renew or buyout equipment.

Define escalation processes for non-response situations and at-risk deadlines. Reconcile invoices for evergreen fees, renewals, returns and buyouts against your leasing system of record.

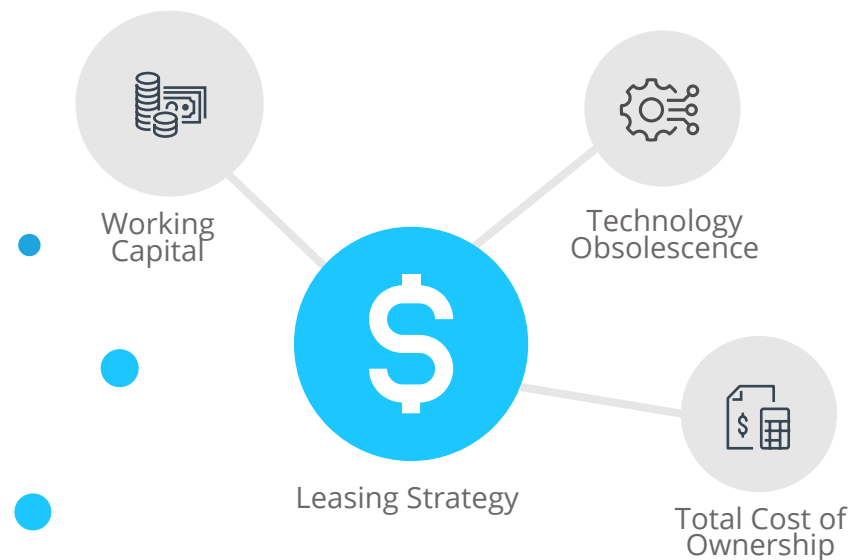
Reconciliation will ensure that dollar amounts and effective end dates are accurate for accounting purposes.

Strategies & policies

#5 Define a leasing strategy

Define how leasing fits into your overall corporate finance, debt and equity strategy. Leasing offers another source of credit for your business that improves working capital; expands free cash flow; and lowers total cost of ownership. Equipment leasing can provide a competitive advantage by providing faster access to newer technology through regular refresh cycles, and eliminates the need to manage disposition of replaced equipment.

Understand how much equipment you lease today then ask how much more could you lease if you could more effectively manage the leasing processes at your organization.



#6 Appoint an executive sponsor

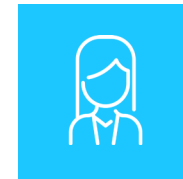
Assign an executive sponsor, who will champion the value of your equipment leasing program and also be accountable for its financial performance. Don't appoint the real estate executive to own your equipment leases just because he/she handles the rest of your leases.

Executives from treasury, procurement, finance and accounting are all good choices for equipment leases. Alternatively, if your leasing portfolio is concentrated in one category such as computers or trucks, consider having leader from a function such as IT or Fleet Management be the sponsor. In addition to the executive sponsor, ensure that each team understands their roles and responsibilities in the enterprise-wide leasing program.

Accounting



Procurement



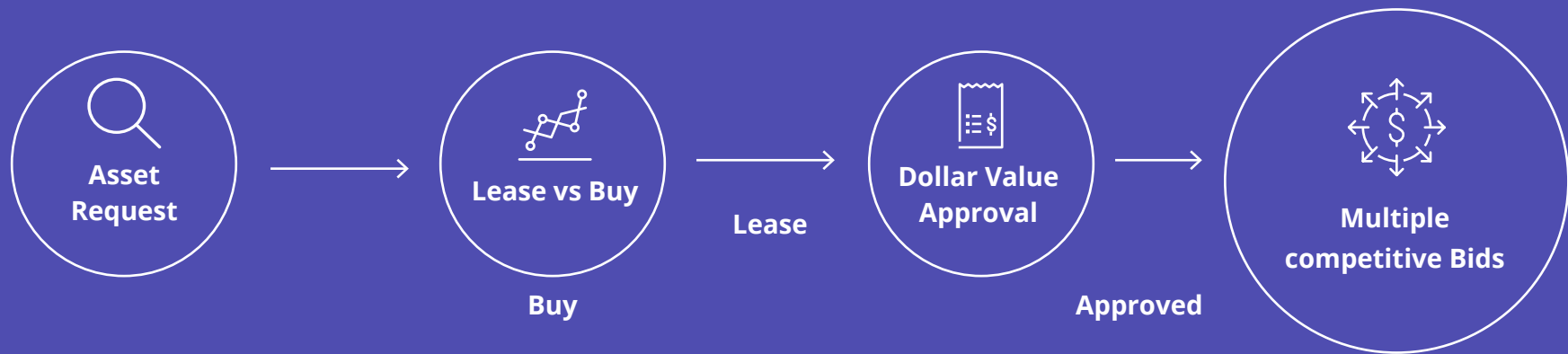
Asset
Owners



Executive Sponsor



tor



#7 Enforce policies & controls

Ensure that the appropriate processes, policies and controls are documented for your equipment leasing program. For example, you should require that all new equipment purchases over a certain dollar value (or of a certain asset type) should be considered for a lease.

Each lease should undergo a lease versus buy analysis to ensure the best economic decision is made. Put controls on who is authorized to execute lease contracts and in what dollar amount. And define end-of-term policies that drive timely decision making and equipment returns.

#8 Invest in talent

Think strategically about the talent you have managing your equipment leasing portfolio. Hire experts who not only understand the operational challenges of leasing, but the financial considerations as well. Consider hiring individuals with depth in particular categories such as IT, fleet or material handling equipment.

Get started now as equipment leasing talent will be at a premium over the next few years while companies scramble to get their systems, processes and controls in place for the latest lease accounting standards. Alternatively, consider outsourcing the day-to-day management of your equipment leasing program to a specialized Business Process Outsourcing provider or Managed Service provider.



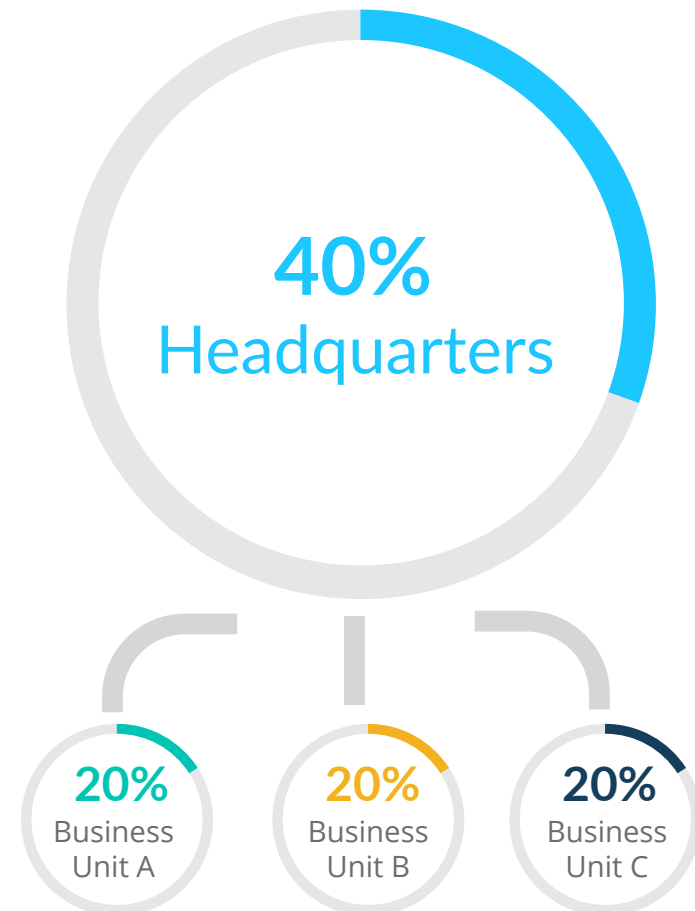


Realized Savings from
Equipment Lease
Management

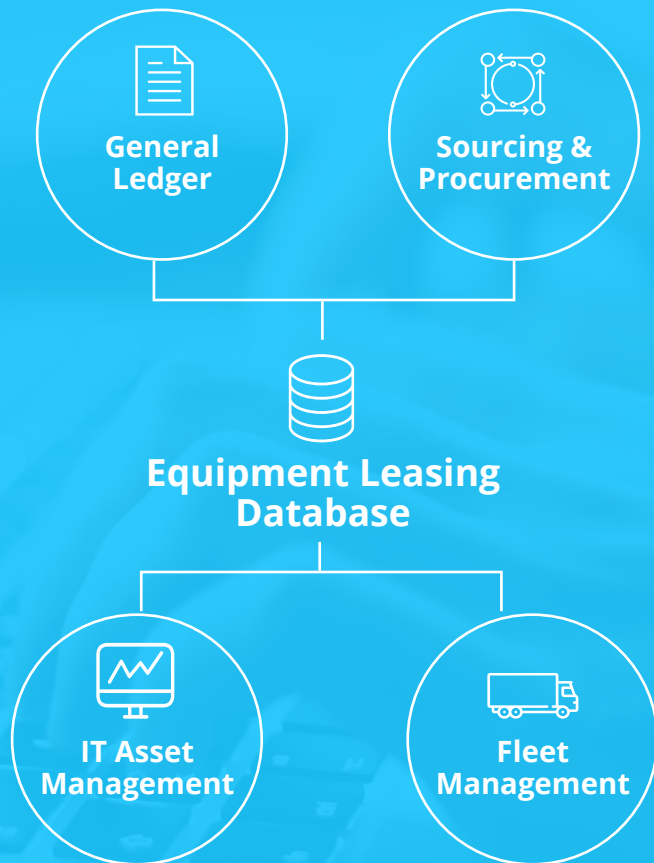
#9 “Gain-share” with business units

Top-down mandates from headquarters may not be effective to inspire the type of change needed to fix your equipment leasing program. Large multinational companies may have thousands if not tens of thousands of stakeholders who need to learn new processes for acquiring or extending equipment leases.

Consider motivating the stakeholder community with an incentive, like sharing the savings realized from better lease management with the groups that use the equipment day-to-day, effectively expanding their budgets.



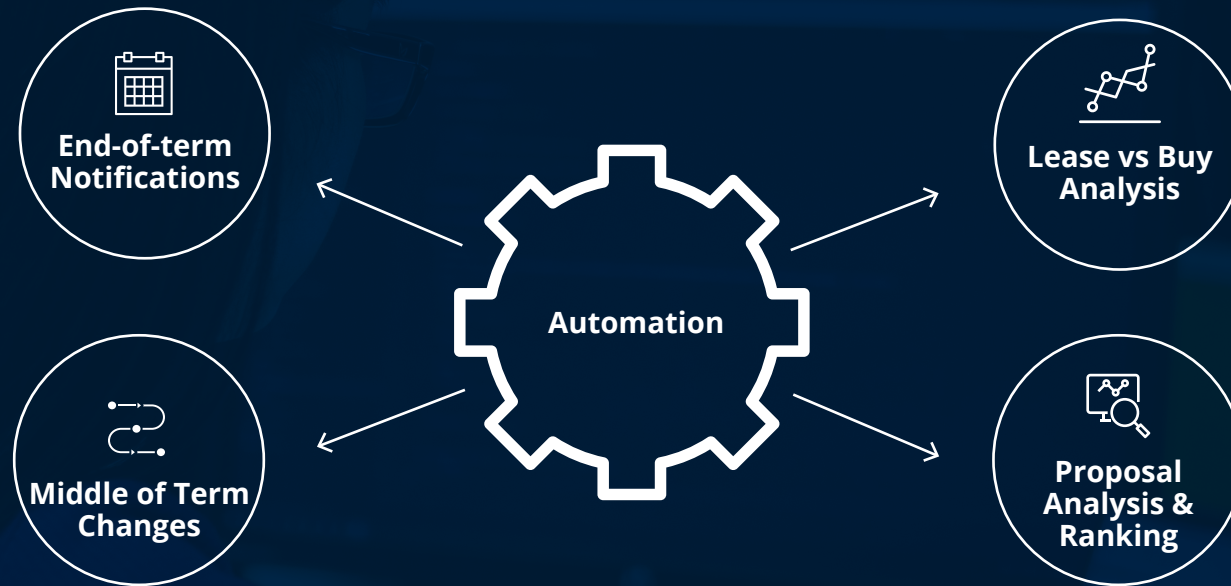
Data & systems



#10 Build a system of record

Capture all the information about your equipment leases in a single, centralized database. Subsets of equipment leasing data may need to live in ERP, procurement, asset management and fleet management applications as well, but should be regularly synchronized with the equipment lease repository.

Ensure that all key lease terms (rent, term, lessor, serial number) are captured along with end-of-term options, notification deadlines and lessor contact information. Notes, emails and comments should be linked to each equipment lease along with copies of Master Lease Agreements, schedules, addenda, purchase orders, invoices and certificates of acceptance.



#11 Automate business processes

Equipment leasing programs have lots of moving parts. The typical Fortune 500 company has several thousand equipment leases. Each lease has several pieces of equipment resulting in tens of thousands of leased assets. Those assets are used by thousands of stakeholders in many different countries around the world.

During the course of a 36, 48 or 60-month lease term each piece of equipment could change location, owner or cost center. Success with an equipment leasing program requires the ability to scale with automation.

It is impossible to track tens of thousands of equipment assets effectively using spreadsheets. And it is impossible to meet thousands of end-of-term notification deadlines without an automated workflow.

#12 Track at the asset level

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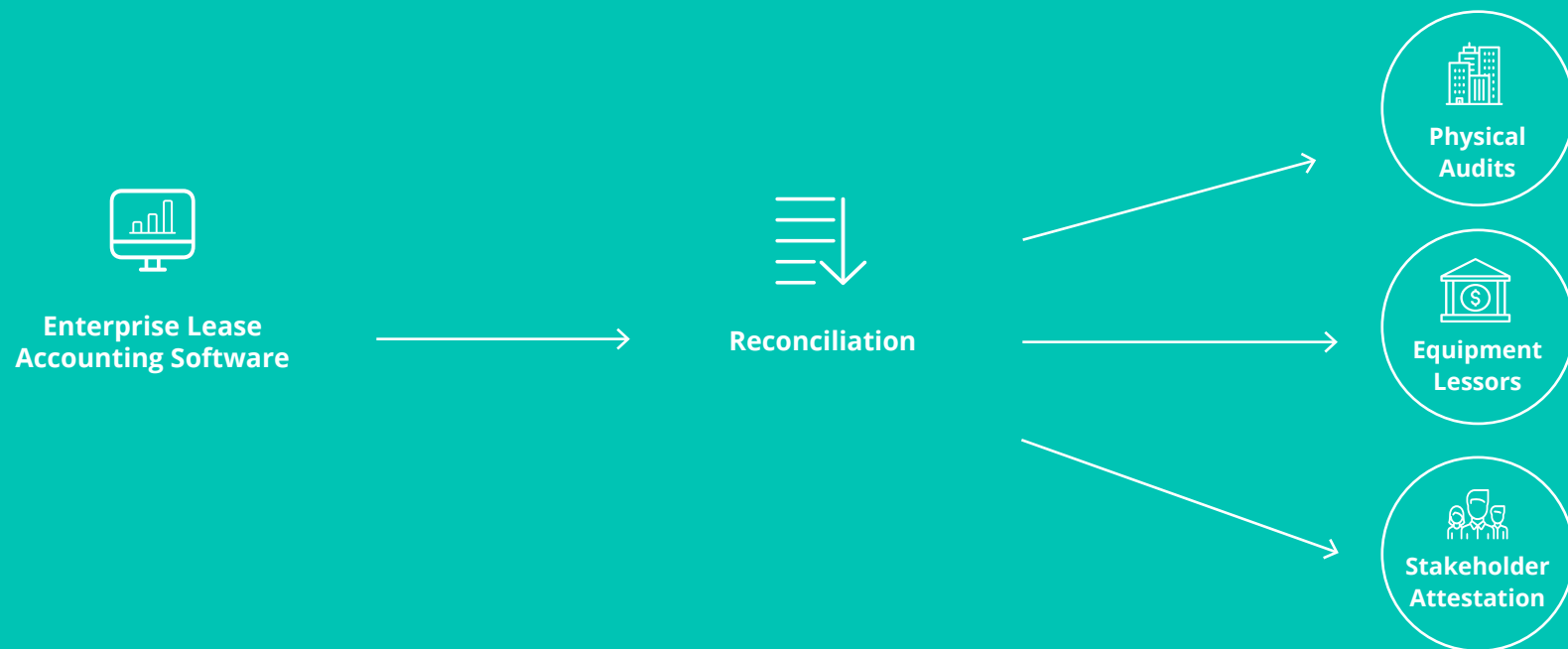


#13 Verify data periodically

At least once a year, verify your data. Equipment assets change ownership, location and cost centers frequently. Compare your data to the information lessors have in their systems for variables such as rent, cost and term.

Reconcile location information between lessor applications and your internal asset management systems to ensure you are in compliance with local sales and property tax notification requirements.

Conduct physical audits on a periodic basis as well. Require asset owners to attest to the accuracy of each piece of equipment's location, business unit and cost center.



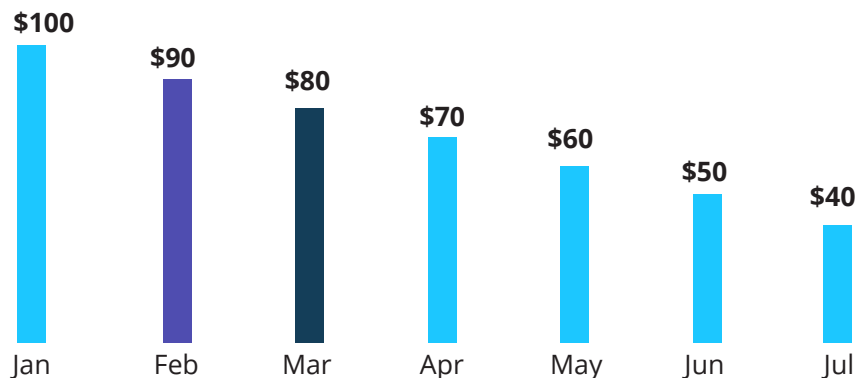
Reporting & KPIs

#14 Arm stakeholders with insights

Make information easily available on a timely basis for all. Arm procurement groups with historical data so they can negotiate the best deals possible. Empower cost center owners with the economic implications of return, renew or buyout decisions at the end-of-term.

Reassure C-Level executives that they can have confidence in leasing data before they sign off on financial disclosures. Time sensitive reports should be pushed via email to stakeholders. Ensure that standardized reports are accessible with a few mouse clicks in an online application as well.

Dollar Value on Evergreen



#15 Measure leasing KPIs

Identify a set of KPIs that allow you to measure the performance of your equipment leasing program. For example, you might want to track the Present Value Cost of each piece of equipment at final disposition to ensure that the cost savings you expected to achieve through leasing were actually realized. Or you might want to measure the percentage of your total monthly leasing payment that is in evergreen fees. Assign owners to KPIs. Create an "Asset Owner Scorecard," which measures the performance of each stakeholder in the equipment leasing process. Share the scorecard results on a periodic basis with the stakeholder and their supervisor.

Key Performance Indicator	Last Quarter
Number of assets in evergreen	125
Average number of months in evergreen	4.2
Number of EOT decisions submitted late	62
Average number of months late for decision	2.5
Number of recordations submitted late	98
Average number of months late for recordation	3.6



BUSINESS PROCESSES

Conduct Lease versus Buy
Analysis

Source Leases
Competitively

Standardize Contracts

Manage end-of-term



STRATEGIES & POLICIES

Define a Leasing Strategy

Assign Ownership for
Equipment Leasing

Enforce Policies and
Controls

Invest in Talent

Gain Share with Business
Units



SYSTEMS & DATA

Build a System of Record

Automate Key Business
Processes

Track and Asset Level

Periodically Verify Data



REPORTING & KPIS

Arm Key Stakeholders with
Insights

Measure Key Performance
Indicators for Equipment
Leasing

Summary

About LeaseAccelerator

LeaseAccelerator provides a global lease lifecycle automation platform that improves free cash flow and ensures long-term compliance across equipment and real estate assets. Thousands of users rely on our Software as a Service (SaaS) platform to manage and automate 700,000 leases valued at \$200 billion across 5 million assets in 172 countries.

The LeaseAccelerator platform includes integrated asset-level accounting, reporting, governance and stakeholder performance management, along with a competitive leasing marketplace fueled by a unique global lessor network of more than 500 bidders. Using this strategic financial platform, customers gain business insights about decentralized assets and stakeholders from centrally managed, rich lease data. On average, customers save 7% on lease financing in our lease marketplace and 10% on lease costs through better end-of-term management. Customers can leverage expert training or choose to outsource the leasing process using one of our trusted managed service providers.

Talk with our team about how LeaseAccelerator can help you automate your leasing process.