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Financing Redefined In search of the ideal leasing company

by: Brent Hoskins, Office Technology Magazine

Remember when complaints within the dealer channel regarding third-party leasing companies seemed rampant? Dealers were frustrated with lessors that acted as if they owned the customer. There were also concerns about hidden fees and problems when lease terms ended. Today, many dealers may be content with their leasing partner. However, for many others, the frustrations continue.

Recently, *Office Technology* magazine received 126 responses to a survey on the topic of leasing, sent via e-mail to BTA member dealers. The results of two



key questions reveal the lingering areas of frustration. Dealers were asked: "Do you believe your third-party leasing company partner acts as if it 'owns the customer' once one of your customers signs a lease?" Fifty percent of the respondents answered "yes." Dealers were also asked, "Have you experienced difficulties in the last six months when upgrading a customer during a lease term or at the end of a lease term?" Similarly, fifty-two percent of respondents answered "yes."

The comments shared at the end of the survey by some dealers further indicate the level of frustration. "They have gotten out of control," writes one respondent. "I feel like every step of the way they try to make up margins by fees and extensions of contracts. I spend 15 to 20 percent of my time cleaning up leasing issues. Help!" Another respondent writes: "The leasing companies, by and large, are trying to play catch-up because of aggressive pricing two to three years ago. They are trying to make it up on the returns and handcuffing the client with additional charges — not all, but most."

Of course, there are leasing companies that are viewed favorably by dealers. In fact, the survey results indicate that 48 percent of all respondents believe the relationship between their dealership and its primary third-party leasing company partner is "excellent." Thirty-eight percent indicate the relationship is "acceptable." The remaining 14 percent indicate the relationship "needs improvement" or they are presently seeking a new leasing company.

Several of the survey respondents refer to their preferred

leasing companies by name. For example, from Leon Mordoh, HPS Office Systems LLC, Indianapolis: "We use GreatAmerica Leasing Corp. and they are the best. There are no surprises." From Dennis Hunter, Missouri Information Solutions Inc., Kansas City, Mo.: "We use a local leasing company, Clune Leasing, and also have done a lease with Greater Bay. Both are excellent companies for us." (Greater Bay Bancorp/Greater Bay Capital handles the Business Technology Association Leasing

Program.) From Giles Scott, Scott's Office Equipment Inc., Rohnert Park, Calif.: "US Bancorp considers itself in partnership with us, understanding that they wouldn't have the customer in the first place without our placement of the equipment."

Dave Verkinderen, general manager of US Bancorp Office Equipment Finance Services (www.usbank/oefs.com), confirms Scott's observation. "We believe it's the dealer's customer, but our responsibility," he says. "Our goal is to service that contract — invoice it, collect it and do everything we possibly can to ensure the customer comes back to the dealer. We look at ourselves more as a servicing company than a leasing company."

Other leasing company executives hold the same view. "The dealer is our customer and the end user is our customer's customer," says David Pohlman, senior vice president and general manager of the Office Equipment Division of GreatAmerica Leasing Corp. (www.greatamerica.com). "Obviously, whether or not to adopt this philosophy is a fundamental decision that any leasing company has to make, because it determines how it acts in so many ways."

Scott Sullivan, vice president and director for the Office Technology Division of Key Equipment Finance (www.kefonline.com), shares a similar comment. "The dealership's most valuable asset is its customer base," he says. "It is our responsibility to make sure that we treat those customers with respect to ensure that when the dealership is out competing for new customers, it doesn't lose any of its current customers."

BTA General Counsel Robert Goldberg praises such attitudes within leasing companies. He admonishes those leasing companies that take dealers' customers as their own, emphasizing that a lease is nothing more than a source of financing. He likens the leasing company to a credit card company. "When I go to a hotel and use my American Express, I don't automatically become a customer of American Express if there is a problem with my

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Key Equipment Finance



room or my reservation; I remain the hotel's customer," he explains. "That's all leasing is — a financial means to an end. You can pay cash, you can write a check, you can use a credit card, you can lease or you can rent, whatever it's going to be."

Yet, says Goldberg, abuses of the leasing company's role persist, particularly at the end of the lease term or upon early termination or buy out. "Often, the end user is willing to pay all the remaining payments, including interest, and give the

equipment back, but the leasing company won't take it," he says. "They want to continue the lease on a monthly basis and they don't want the equipment removed from the location."

Similarly, says Goldberg, some leasing companies strive to keep equipment in place through unnoticed or forgotten automatic renewal policies that are buried in the small print of a lease contract. "I recently heard from a dealer who said two of his customers had missed the 90-day window to notify the leasing company that they would not be renewing," he says. "So, the leases were automatically renewed for another year and the dealer will get nothing out of those renewals. That's so unfair, because the leasing company has already made absolutely all of the money it intended to make on the leases. This extra year is just about 100 percent profit."

Of course, says Goldberg, the automatic renewals could have been prevented had the dealership notified the customers in advance. "Using Outlook or Act or some other software, I recommend that a dealership's salespeople have reminders on every customer's lease terms so they can be notified in advance of renewals," he says. "If I owned a dealership I would have a form letter mailed to every company with a lease that said, 'Dear Customer, your lease is going to terminate on Sept. 1' or whatever. 'During the next 90 days, if you don't intend to renew the lease, you must give the leasing company notice of that fact.'"

(To assist dealers in selecting a leasing company, Goldberg developed BTA's Leasing Company Relations guidelines. A copy of the document can be found at www.bta.org. Click on "Member Services," then "Member Leasing Companies.")

It should be noted that at least one leasing company prefers its dealers not notify their customers when lease terms are about to end. "I refused to sign an Internet agreement with our current lease company due to the wording of the contract, which states that we could not notify our customer that the lease was about

to expire," writes one survey respondent. "Therefore, we do not have online access to our leases or even know what the lease company considers to be the commencement date of the lease."

Regardless of any obstacles to dealers notifying customers about approaching lease renewals, there are compelling reasons to do so, particularly for the 31 percent of the survey respondents who indicate that their leasing company partner's contract has an automatic renewal

of one year. (Seventeen percent indicate their leasing company has a quarterly renewal, while 46 percent indicate a monthly renewal. Six percent indicate they do not know the length of the renewal provision. Some selected more than one answer.)

Actually, the automatic renewal provisions overlooked by both the lessees and dealer cited by Goldberg point to an area of weakness that more dealers may want to address. The e-mail survey asked dealers: "Do you believe your customers generally sign the third-party leasing company's contract without reading it?" A substantial 89 percent of respondents answered "yes."

Goldberg says he is not entirely surprised by the low percentage of lessees thought to have read their leases. "This is a relationship selling environment," he says. "The sales rep has a relationship with the customer. He comes in, shows the customer the new equipment and tells them it will meet their needs for printing and copying, etc. The paper work is simply seen as a nuisance at the end of the process. But it should not be a nuisance. It's a legal contract and the customer should have read it."

Why are many end users not reading the lease? "Because they place a lot of emphasis and trust in the equipment sales rep," says Kathy Curtin, program manager at Greater Bay. "The customer puts all of his or her confidence in the rep to say, 'I believe I'm leasing a good piece of equipment. I believe you are going to put me in a relationship with a good, ethical leasing company.' The customer is surprised when that's not the case."

Pohlman agrees. "At the end of the day, people still buy from people," he says. "There is an element of trust in the dealer. I think dealers almost take too lightly the fact that however the leasing company acts with the dealership's customers, ultimately it always comes back to them because the customers don't look at the dealership and leasing company as separate entities. So, the lessee looks at the dealer as 'you brought this financing

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option to me, so, if any bad things happen to me as a result, I'm going to look to you as the dealer to place some blame."

Unfortunately, even when the lessee reads the lease, perhaps compelled to do by the dealership sales rep, surprises still sometimes emerge. The survey asked: "For those customers who do read the contract, which of the following do you believe best describes the level of understanding they most often have of the contract? Thirty-nine percent of the

respondents selected, "Customers often face unexpected surprises, due to a lack of understanding of the contract." (Forty percent selected, "After many questions and conversations, they are generally understood." Only 21 percent selected, "All provisions are easily understood.")

Beyond simply reading and striving to understand the lease, another key way to avoid unexpected surprises at the end of the lease — for both dealer and customers — is to know at the time the lease is signed the lessor's residual position on equipment under a fair market value (FMV) lease, perhaps the most common of lease types. It appears that many dealers do not. The survey asked: "Do you always know the true residual amount on all FMV leases at the time the lease is signed?" Seventy-five percent of respondents answered "no." The survey also asked: "If you answered the previous question with 'yes,' for each asset leased do you have an agreement documenting that you can buy the asset for that amount?" Fifty-seven percent of respondents answered "no."

"You need to know the residual value," says Goldberg. "That should be established up front. A lot of times there is too much 'air' in the residual value. It is inflated to keep the rate lower."

Curtin says Greater Bay has no hesitation in providing the true residual value to dealers. "We'll tell them right up front, because we don't want any surprises," she says. "When we say we'll give it to you in writing, we give it to you in writing. A lot of dealers don't get that from other companies."

Mark Schmitt, senior vice president at Greater Bay, emphasizes that dealers should be aware that all leasing companies know the residual value when an FMV lease is signed. "These are established financial companies that make their money through long-term thinking; they know their residual assumptions from day one," he says. "The issue is getting them to divulge it. A lot of companies do not like to divulge it. If they do divulge it, they'll

do so in a manner that still gives them some wiggle room.”

Again, today, that “wiggle room” with the residual value is seen as only part of the problem with some leasing companies. “There are so many games being played around fees, end of term, return policies, etc.,” says Pohlman. “Frankly, there are times when I am almost embarrassed to be in this industry, because of the way some companies are behaving.”

If there are leasing companies that treat the dealer as the customer, not circumventing equipment upgrade opportunities, not charging extra fees, etc., why do more dealers not work with such companies? The answer is simple, says Pohlman: “Obviously, many dealers are lured by low rates.” Companies offer low rates “knowing full well that once they get a whole base of the dealer’s customers with that rate, then it makes it almost impossible for the dealer to get away from the leasing company,” he says. “Dealers should be genuinely leery of low rates.”

The results of the survey reveal that dealers are seeing particularly low rates as a sign to be cautious. Among the comments shared by respondents:

- “Be careful with low-priced leasing companies.”
- “Look out for those companies that have unbelievably cheap rates.”
- “It seems as though rates are so low the leasing companies are concentrating (‘preying’) on the end-of-term renewals and really playing hardball with the customers and dealers. I would rather see higher rates with more flexibility at the end of the term.”

“Many dealers are starting to recognize that there is more to the equation than the front end,” says Sullivan. “When they consider a leasing company, they are asking such questions as ‘How are they going to treat me?’ ‘How are they going to treat my customers three, four or five years down the road?’”

One of the survey respondents agrees: “Many dealers have learned that rate is not the most important criterion. They know it costs you a multiplier of that rate in the future.”

Of course, many dealers are now recognizing the other traits to seek in a leasing company, because of the bad experiences they have had in the past. *Office Technology* followed up with those survey respondents who indicated their current leasing relationship needs improvement or that they are seeking a new

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leasing partner. They were asked: “From your perspective, what would be the traits of the ideal third-party leasing company, in terms of its policies, philosophy, practices, etc.?” Following is a sampling of the responses:

- “Fair, honest, ethical and with no ‘back-end’ surprises.”
- “An ideal leasing company would be one that would develop a mutually beneficial relationship tailored to each individual dealership’s needs.”

■ “Policies that provide more timely end-of-lease notification to the dealer. Customer service practices that would create an environment of goodwill between the leasing company and the end user ... Philosophies geared toward helping the dealer get the next deal.”

■ “The leasing company should be your friend and partner, working with you. They should listen to you and take suggestions ... They should not hide costs and surprise customers with additional invoices throughout the year.”

■ “No negotiation of the purchase of the machine by the leasing company and customer before the dealer has a chance to buy/refuse.”

■ “A leasing company should work for the dealer, never be a competitor of the dealer and should not assume ownership of the account.”

As noted, some leasing companies appear to recognize the importance of the traits sought by dealers. “At the end of the day, your customer base is all you have as a business,” says Pohlman. “So, in many ways, a leasing partner is a more significant relationship than your manufacturer choice, because it has such an impact on your customer base. My advice to the dealer: Go down the path with a company where you genuinely enjoy the people and feel that their ethics and philosophies are aligned with your own.”

Verkinderen says it is important for dealers to remember that the “path” is a long one. “The day you do a deal with a leasing company, you’ve entered a three-year to six-year relationship,” he says. “That’s a long time to have to deal with somebody. So, make sure that the relationship is the right one and that you are contracted in a way to protect yourself.” ■

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