

LEASING LIFE

January 2007 Vol 14 No 160

www.leasinglife.com

Facing realities?

How business is doing for European lessors in the US, and for the American lessor in Europe

Brendan Malkin and Russell Davies

Way back in 1993 an academic, Clare Holman, wrote a stinging report on why, at the time, American lessors were failing to gain ground in Europe. Titled 'The rise and fall of the American lessor in Europe', it accused these Americans of not being sufficiently sensitive about local cultures, their lack of "environmental auditing and market screening", their "lack of patience and [their making of] rash decisions to obtain profit", and their inadequate local market knowledge.

Can the same be said today, and could this apply to European lessors doing business in the United States? On paper, it seems, the answer is no. More poignantly, however, it seems this lack of real attention to making a business work, as was exemplified in the 1993 report, appears to have been replaced by a strong willingness to face up to harsh realities. This point is one of the key conclusions of this special report on US leasing companies in Europe, and European leasing companies in the US.

US lessor Key Equipment Finance (KEF), for instance, when asked to comment on important issues affecting its European business, pointed to a lack of sufficient software capability for it to be able to operate in different countries (a look at the side box provides a detailed view of its opinions on this point).

Also, as the side boxes illustrate, many realise that getting the right staff is a problem, and this applies for both US lessors in Europe and vice versa. Furthermore, they admit that costs tend to be higher in the US compared with Europe, and companies are more likely to see higher growth in the US rather than in Europe, according to *Leasing Life* research. In addition, one lessor believes that the possibility of convergence between IFRS and US GAAP is a "possible source of problems" for lessors.

Also, while the 1993 report commented

GROWTH OF DE LAGE LANDEN IN THE US AND WORLDWIDE

De Lage Landen Lease Portfolio 2001-2006 – €bn

	12/01	12/02	12/03	12/04	12/05	6/06
Europe	5.9	6.1	7.0	7.0	7.5	8.0
America (includes North and South)	4.7	4.9	5.2	5.9	7.6	7.5
Rest	-	-	0.1	0.1	0.3	0.3
Total	10.6	11.0	12.3	13.0	15.4	15.8
DLL Gross Profit	€215m	€238m	€264m	€278	€327m	€152m

Source: Rabobank Annual Reports and Interim Results 12/01-06/06

on the then lack of cultural awareness of Americans, lessors both sides of the Atlantic today highlight the need for cultural sensitivities as a key driver to growth. Hard lessons, it appears, have been learned.

Hard realities

Siemens Financial Services, the captive and vendor finance company, as part of its response to a *Leasing Life* questionnaire, provided a long list of key issues that have to be faced up to in order to get customer satisfaction in the US. They include execution consistency, fast credit approvals, and the "ability to tailor customized solutions to meet customers needs". The respondent added: "In terms of risk, based on the maturity of the US market, the risk appetite is higher in the US. Another key difference is the legal aspect in the US and more regulatory requirements."

Europeans also need to adapt to the US

culture of being more short-term orientated, and more sales and performance driven, a point made by Toon Sanders, managing director of consumer finance at De Lage Landen International, which in the US specialises in vendor finance in the agricultural, construction, office, and healthcare equipment finance sectors.

This contrasts with the response to the same question from Melisa Carter, senior vice president of corporate development at KEF. Her focus was more on staff treatment: "In general, European workers have a better work-life balance than workers in the US, and in our experience the business environment in Europe is more formal than in the US."

"Also," she adds, "employers have to adhere to much more stringent regulations in Europe, and the lease products are not the same in the US as they are in Europe, so operationally there are a lot of differences." She also

PROFILE OF EUROPEAN LEASING BUSINESSES OF US COMPANIES

Company name	Launch date in Europe	Total volume of assets in Europe	Year-on-year growth	No of European offices	Staff numbers
GE Capital Solutions Equipment Financing	1986	\$10bn (excluding assets derived from recent purchase of DISKO in Germany and Barloworld in the UK)	8 per cent	15	1,500
Key Equipment Finance	1985	N/A. Volume of assets globally total \$12.5bn	N/A	15	120

Source: *Leasing Life* Research

PROFILE OF US LEASING BUSINESSES OF EUROPEAN COMPANIES

Company name	Launch date in the US	Total volume of assets in the US	Year-on-year growth	No of US offices	Staff numbers
Siemens Financial Services	1973	N/A for US. Worldwide no of total assets totalled €10.5bn (as of 30/09/06)	N/A for US. Worldwide 3.91 per cent growth between 2005 and 2006	16	275
De Lage Landen International*	1999	€8bn	15 per cent between 2000 and 2006	2	800
La Salle National Leasing Corporation (part of Dutch bank ABN AMRO)	1996	€3bn	5 per cent per annum	19	115

* see side chart for De Lage Landen Lease Portfolio statistics
Source: *Leasing Life* Research

KEY CONCERNS: EUROPEAN LEASING COMPANIES' VIEWS ON THE US

Company name	How does growth potential compare between the US and Europe	Is it easy to find the right staff in the US	How do costs compare in the US with Europe?	Comments on convergence between US GAAP and IFRS
Siemens Financial Services	Greater. Penetration of leasing in terms of overall capital investment has remained stable at about 30 per cent in a highly competitive environment. However, there are organic and inorganic growth opportunities in the US that will keep the US as a key leasing market in the world. It is a highly fragmented market with opportunity to gain market share	Not very easy	Higher in the US	N/A
De Lage Landen International	The same	Not very easy	Higher in the US	The possibility of convergence is a very positive prospect
LaSalle National Leasing Corporation (part of ABN AMRO bank)	The same. However, the US is homogenous as it is one country, and the path to growth will be different in Europe	Easy	The same	The possibility of convergence is moderately positive

referred to the somewhat obvious fact that there is a need to be aware of the cultural sensitivities of the different countries around Europe.

It is also notable that while Siemens Financial Services regards regulations as being more onerous in the US, Carter believes the opposite is the case.

Flexibility

Meanwhile, as well as this need for flexibility for US and European lessors as they engage with different cultures, similarly, according to analysis by *Leasing Life*, companies have been flexible as to how they go about creating a leasing business in the US, or one in Europe.

There is no one solution. Looking at just a few major financial institutions suggests three main approaches, each seemingly as successful as the other.

Firstly, buy a couple of indigenous banks

and merge the leasing operations of the parent and the purchased banks.

This seems to be RBS' strategy in the United States. Its asset finance business is operated through Citizens Bank, which became a subsidiary of RBS in 1988. At the beginning of 2006, RBS asset finance Inc was transferred to Citizens – bringing with it \$2.2bn (£1.1bn) of assets – from RBS corporate markets. It was combined with Citizen's own asset finance company, Citizens Leasing, Charter One's ICX Corporation – Citizens had bought Charter One in 2004 – and the group which used to be known as RBS Lombard.

Citizens now has three leasing brands: RBS Asset Finance, Citizens Asset Finance and Charter One Asset Finance. Citizens claims that this combined business is the eighth largest bank-affiliated leasing company in the US. It currently has a portfolio of almost \$6bn (£3.05bn) and its interest income from

lease financing was \$104m (\$53bn) in 2005 and \$62m (£31.5bn) in 2004.

In a similar vein, HBOS bought an American company to help build its leasing business in the States. HBOS has adopted a specialist sector focus in its corporate North America sector with Drive financial services as its motor finance subsidiary – HBOS has a 64.5 per cent shareholding in the company. It is based in Texas, operates across 35 states and has 10,000 dealer partnerships. Formed in 1995, it had assets of \$1.75bn (£0.8bn) in 2005.

The second approach could be called the multiple acquisition strategy. This is exemplified by GE commercial finance, in particular its equipment financing business, the largest of GE's leasing businesses. Over an eight year period during the 1990s, Equipment Finance acquired 17 companies throughout Europe, including the Wang International Group in a number of countries, Kreditbank in Germany and the

KEY CONCERNS: US LEASING COMPANIES' VIEWS ON EUROPE

Company name	How does growth potential compare between the US and Europe?	Is it easy to find the right staff in the US	How do costs compare in the US with Europe	What has been the effect on your European business of the EU's partial adoption of IFRS	Is there software capability in Europe to fulfil your business plans
GE Capital Solutions, Equipment Financing	The same. It claims to have "huge potential for growth" in all its markets	Not very easy to find the right candidate. GE, which as a whole spends \$1bn a year on training, insists "it takes time and investment to find the top talent to drive the business forward".	Higher in the US	N/A	Definitely. It has invested heavily in this area in recent years. It now has Extranet technology with transactional functionality and auto-decisioning tools providing instant credit decisions in all markets
Key Equipment Finance	Greater in the US. It stated that while there is great opportunity for expansion in Europe, US accounting requirements are still more favourable to leasing, at least for the time being. It views the \$800bn capital equipment market in the US as an opportunity because "the product mix that leasing offers is shifting towards non lease products". It adds that these comments do not reflect the East European market potential as this is a region which it has no plans to enter	Easy	Less in the US	Made little difference. Also, it believes that the possibility of convergence between IFRS and US , GAAP in relation to leasing, is a possible source of problems	Insufficient. States that the software it needs to operate in multiple countries throughout Europe does not exist. Therefore, it has had to develop it themselves or work with software companies on a joint development basis. It believes that since many of the large leasing companies are investing in pan-European software development then there will eventually be a more complete solution, but it feels this take a "little time"

Anglo Group in the UK.

Then, in the first couple of years of the new century GE went on another spending spree and bought 10 more companies, including Heller Global Vendor Finance and ABB Credit Finans, with the last being Canon Finance in France in 2004. GE equipment financing has now been in Europe for 20 years – it set up its head office in the UK in 1986 – and, according to its website, it provides vendor finance and

equipment leasing to some half a million businesses and has net earning assets of nearly US\$10bn (£5.09bn).

Organic growth

This acquisition strategy looks set to change, however. In an interview published in the *Harvard Business Review* in June 2006, GE’s chairman and CEO, Jeff Immelt, outlined a new focus on organic growth and the development of new revenue

streams from existing businesses. Immelt’s target for the group was to grow by two to three times the growth of global GDP, a figure of around eight per cent at the time of the interview.

Old habits die hard, however. A couple of months ago, GE Commercial Finance bought two German leasing companies – Disko and ASL – as well as the Belgian-French financial services group, Dexia. As reported in *Leasing Life* at the time, ▶

BREAKING AND ENTERING

Neema Rai reports on the challenges faced by two software companies when they launched in the US

While cultural differences and geographical distances add to the challenges that British software companies face when entering the United States, one thing that they seem to agree upon when considering expansion into North America is the importance of a good local partner, or consultant, that knows the local culture and its products.

For CHP, it was Steven LeBarron. After being head-hunted by the London-based software company, LeBarron joined as its vice president of marketing for North America in September 2005, soon after CHP had won its first US client, Textron. LeBarron had been active in the American equipment and vehicle leasing industry for over 20 years prior to joining CHP.

Andy Denton, sales and marketing director of CHP, believes his company’s biggest challenge was being accepted by Americans. “LeBarron has certainly helped to ease that, maybe we should have brought him in earlier,” says Denton.

Copernicus, another UK software company, formed an early joint venture with Fund Guard, Florida-based lease funding partner, in the US. “It is essential to find a partner who has local knowledge and knows the local culture,” says Charik. Copernicus is due to go live with Fund Guard, its first US client, in January.

But even with the right partner, breaking into the US market poses other demands. Having patience, it seems, is a crucial skill. CHP began exploring opportunities in the US three years before it stumbled upon Textron. Having done so it wasted little time before establishing a base in Chicago and relocating a workforce from the UK to North America.

Challenges

There are other challenges to breaking into the US. “Strategic ambiguity is a

killer,” says Denton. “The reason we went for the US more whole-heartedly than Europe is really because we thought it would be easier.” However, doing so involved weighing-up many factors, including language, culture, distance and the legislative environment. “America won on language and culture, Europe with distance and they both drew with legislation,” Denton adds.

Scale is also a major consideration. Even for a software company based in the UK, one of the world’s most developed leasing markets, the US is a vast place to do business. Denton explains: “In Europe the biggest volume players are HBOS, Lombard and ING, whereas in America there are a hundred such players. Textron is the size of Lombard, but only a top 50 players in the States.” Not all European companies could cope, he adds: “There are a few software companies who can truly deal with such volumes,” says Denton.

For Copernicus, the biggest challenge when preparing for full entry into the US has been adapting all of its products to fit with the American market, such as the fiscal and currency changes, according to Charik. However, he adds, Copernicus, which in the US has been re-branded as Helios Financial Systems, which is based in Naples, Florida, has been assisted in this process by its recent creation of software products that are sufficiently flexible that they can be tailored to the needs of different countries without requiring too much effort. As a result, claims Charik: “We are one of the few software company which has products configured to the global markets to comply with currency, fiscal and taxation differences.” CHP, too, claims to have such capabilities. “One reason the Americans like us is because they want global systems,” remarks Denton.

Timing

The timing of the entry into the US was also critical for CHP. Although there were numerous regulatory changes affecting leasing taking place in the US at the time CHP was considering entering the country, at the same time its software products were, according to Denton, “immature” while the “mature products [in the US] were limited”. CHP, argues Denton, took advantage of this need-for-skills situation by launching its software product early on in the US.

Nonetheless, the market has not been entirely swallowed-up for European software companies, Denton believes. “Companies are starting to look for new products at the moment, but if you’re not in there soon it could be too late,” he remarks. Once in, the hard part, it appears, is getting the first client. In CHP’s case, once that had happened then “we could get a team together and were actually in the market”, adds Denton.

CHP, it appears has got over the first hurdle. It is now reasonably sized in the US with a total of 30 staff, a number which it plans to grow in the near future, and it is due to soon go live with its second client, Dresdner Kleinwort. Like Copernicus, which recently announced that it is close to going live with its first clients in China and Azerbaijan, CHP is an ambitious company. Denton, for instance, seeks to ensure that whenever there is a tender for software contract in the US, CHP is among those pitching.

The US, it appears, offers opportunities for most software European companies. But for those looking to enter that market, the time to do so is soon rather than later – as competition stiffens, opportunities, it appears, are becoming thinner on the ground.

GE stated that, although organic growth was its main strategy, it would still buy other companies where it saw a strategic fit.

The third strategy is to set up in the target country and grow organically. This seems to be the approach of the Dutch banking group Rabobank in respect of its leasing business. As a bank, Rabobank's strategy includes making acquisitions of small banks in rural areas of developed markets with a strong focus on the food and agriculture sector. It has, for example, bought the Valley Independent Bank and the Community Bank of Central California in the United States in recent years.

With its leasing subsidiary De Lage Landen (DLL), however, there seems to be no equivalent emphasis on acquisition.

DLL was set up in the United States in 1998, almost 30 years after being founded in the Netherlands. It does not appear to have made any acquisitions in the United States this century, except for the purchase of an office equipment portfolio in 2006, although it has bought two leasing businesses in Europe – Telia Finans and Athlon Holding. It also set up a public finance unit offering lease products to central, federal and local authorities in 2005.

DLL now operates in both North and South America and, over the past six years, it has garnered numerous 'name' clients, including Merrill Lynch, Komatsu, Hyundai, Panasonic and Sony. Two years ago, its healthcare and office equipment divisions brought in

Bayer Healthcare and Carl Zeiss.

Portfolio growth has been largely steady, although in 2005 a strong dollar helped boost the loan portfolio by 31 per cent, with the healthcare and food and agriculture sectors both doing well. Increases in short term interest rates and strong competition helped to bring margins down. DLL claims that it is now sixth in the US in terms of sales volumes, and the largest foreign leasing business.

Whichever of the three approaches is taken, however, one thing seems to be clear. To succeed in creating a business in another country, there needs to be a financially strong parent in the background with a well-established reputation in its country of origin.