

Making Technology Leasing Work in Europe

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The global technology equipment leasing market is worth an estimated US\$25 billion a year and continues to grow rapidly. Currently, the United States claims the lion's share of the market.

The concept is more deeply ingrained in the American culture where renting cars, houses and even furniture is the norm. And, because it is so much part of the mainstream, US businesses have historically been more receptive to the leasing message than their European counterparts. The US is also more homogenous than Europe, in terms of both business culture and financial and regulatory frameworks.

However, largely because the business arguments in favour of equipment leasing are so compelling, the market is now beginning to take off in Europe. This article looks at the benefits of leasing and the reasons why IT directors and facilities managers across Europe are increasingly adopting this method of financing the acquisition of new equipment.

Understanding the Benefits

With US-based equipment leasing companies establishing a stronger presence in the region, more European businesses are being educated on the advantages of this approach to asset finance. One of the most important benefits is that leasing helps companies conserve cash.

Paying cash for equipment, or even making large down payments, can deplete reserves and ultimately even lead to the business failing, if insufficient reserves are available to pay off creditors on demand. In contrast, leasing enables customers to retain their cash, by eliminating the need for down payments.

Many leasing packages provide 100 per cent financing and even cover "soft" costs like shipping, installation and training. In addition, there are no application fees. Instead, businesses are able to make affordable, flexible monthly payments.

The other major benefit is that leasing customers no longer have to worry about the dangers of equipment becoming obsolete. Technology changes rapidly and systems that were once 'state-of-the-art' quickly become outmoded.

Leasing gives IT managers the agility to adapt to changes painlessly by enabling them to match lease terms to the expected useful life of the solutions. It also allows them to maximise productivity by ensuring they are always using the latest equipment. In addition, flexible options available with many leasing packages enable users to replace or upgrade equipment easily.

There are also tax advantages to technology equipment leasing. There are two main ways in which leasing can help users manage their tax liability.



With some leases, payments are fully tax-deductible;

Other leases offer the tax benefits of ownership (depreciation and interest expense deductions.)

However, the most important benefit of leasing for the end customer is the flexibility it provides. Leasing comes in many different varieties and can be tailored by providers to meet a customer's precise requirements.

Today, leasing options exist that let users design a financing plan around the needs of their business, whether their priority is guaranteed ownership; the flexibility to return equipment; specified purchase options or varying monthly payments to match seasonal cash flow. Customers can even convert a recent purchase to a lease (if the equipment is less than 90 days old.)

Harmonising Accounts

As the benefits of leasing technology equipment become clearer to European businesses, leasing is becoming a more popular option. However, if this is to be sustained, the equipment leasing industry needs to develop processes and systems to manage its biggest challenge – Europe's diversity. The region's raft of different languages, business cultures and legislative and financial infrastructures makes it impossible to impose an effective one-size-fits all approach.

One of the most complex areas is accounting, where there is a multiplicity of different rules, regulations, policies and procedures. Recent moves to streamline accounting in Europe

represent a positive move to simplify the landscape.

In 2001, EU finance ministers in the European Parliament adopted new International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Boards (IASB).

In theory, this approach offers the potential to harmonise accounting policies across different European countries. Ultimately the opportunity to converge US financial accounting standards with IFRS promises a homogenous global environment.

Of course, the reality is different. Several important issues need to be addressed before this level of harmonisation is achieved. The current tax situation in Europe, for example, presents a significant barrier to a streamlined accounting environment. Another sticking point is that the move to IFRS is currently only mandatory for publicly traded companies.

Overall, however, while Europe is still some way from establishing a streamlined accounting environment, the principles of harmonisation behind the introduction of international accounting standards should be welcomed by providers and end customers alike. To overcome the remaining obstacles hindering wide acceptance and use of equipment leasing across Europe, leasing providers need to develop products that are customised to local accounting rules while still conforming to the prevailing business environment.

A Practical Approach

Above all, they need to be pragmatic and respect the diversity of the industry in Europe. US-based businesses, in particular, often underestimate its complexity. They frequently establish one central hub, usually in the UK, and use this as a distribution point to roll out new products across the whole region.

Such an approach may be appropriate when addressing the US. However, it is entirely unsuited to the heterogeneous European environment. Asset finance companies operating in Europe should treat individual countries as distinct entities. To appeal to customers, they must tailor their collateral to the needs of each market and make it available in the local language.

Yet, even more importantly, they should have a

presence on the ground in all key countries and employ local salespeople who understand the local business culture and can discuss local issues with potential clients.

A process of education needs to take place. Most European companies are not aware either of the scope of leasing solutions available or of how leases can be tailored to their needs.

Businesses need to seek out asset finance companies that provide the highest possible level of consulting expertise thus making the benefits of leasing tangible.

Tailoring the Product Offering

To make certain their move into technology equipment leasing is a success, businesses must also work with providers capable of developing financial products tailored to their precise needs no matter the region in which they are operating. Drawing on expertise gleaned from its long-term presence in 15 European countries, Key Equipment Finance is well positioned to do just this.

Key Equipment Finance, a provider of international vendor leasing programmes, offers local businesses the benefits of global products and services which are customised to meet their local needs. In fact, it now has a global product development team, including senior representatives from all territories, that collectively addresses all cultures, businesses and vendors within the company's target sectors. Key Equipment Finance believes that other technology equipment leasing providers looking to expand from the US into Europe could learn from this approach.

Bright Future Ahead

If leasing companies adopt such methods, there is much ground for optimism. IT and facilities managers across Europe are becoming increasingly aware of the benefits of leasing.

Businesses should work with leasing companies who respect the diversity and complexity of the marketplace and ensure the right people and products are in place to address these issues. If they do so, there is no reason why technology equipment leasing in Europe should not emulate the success it has achieved in the US.

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