

30 TRENDS NOW AFFECTING THE LEASING INDUSTRY

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30 TRENDS AFFECTING THE WORLD SINCE 9/11

For some four decades, Forecasting International has conducted an ongoing study of the forces changing our world. About ten years ago, we condensed our observations into two reports. One dealt with major trends at work in the United States; the other examined trends acting throughout the world. These findings covered key aspects of the economy, technology, business, and society.

Over the last decade, our expectations have proved to be gratifyingly accurate. We believed that the economy of the developed world would be much more vibrant than most commentators imagined possible, and so it has been. We predicted the continuing rise of two-income families, and the growth of the many service industries that cater to them. We foresaw the staffing problems brought about by the changing population. In all, no fewer than 95 percent of our projections have proved correct.

Those early forecasts have often been updated and extended. Recently, they have undergone a complete revision. We reconsidered all of the trends from our previous work, deleted three that had proved inaccurate, condensed others, and added several new phenomena that have appeared over the years. For each assignment we perform, we compare these trends with the specific circumstances of the industry or corporation under study.

With this process complete, we have identified a total of 30 major trends now changing the equipment leasing industry. Some will have very direct impact upon this business. Others will help to form the general environment in which we live and work. All of them merit attention from anyone seeking to anticipate what lies ahead.

General Long-Term Economic And Societal Trends

1) THE ECONOMY OF THE DEVELOPED WORLD WILL CONTINUE TO GROW FOR AT LEAST THE NEXT FIVE YEARS. ANY INTERRUPTIONS WILL BE RELATIVELY SHORT-LIVED.

The September 11 attacks in New York and the Washington suburbs triggered one of those interruptions. On September 20, the Dow Jones Industrial Average was 14 percent lower than it had been just 10 trading days earlier; airline shares had lost 30 percent of their value in a single day. In one day alone, five Broadway productions closed their doors for lack of business. Hotels in New York City, usually filled to capacity, had occupancy rates around 40 percent. Throughout the economy, spending is down sharply. Similar trends are seen throughout the industrialized world.

Yet if consumers are temporarily sitting on their wallets, there is no sign of panic in the air. People are alarmed, and they grieve for the dead. Many are grieving even more immediately for their lost jobs. Yet auto sales are strong, buoyed by zero-percent financing, and few Americans say they plan to cut back on Christmas shopping. Consumer spending will rebound, and it accounts for

roughly two-thirds of the American GDP. Eventually, that engine will help to propel America and the world out of recession. (Incidentally, productivity is at its highest in years, because it is taking fewer workers to deliver the same output.)

That is not to say that the months ahead will be easy. Export markets are weak, and managers suddenly have discovered a new aversion to risk and an uncomfortable awareness of the fragility of a just-in-time economy. For a time, they will struggle to adjust, not only to immediate uncertainty, but to new doubts about long-term strategy. Yet we agree with Goldman Sachs portfolio strategist Abby Joseph Cohen, who believes that economic growth will resume by the second quarter of 2002. As other countries bring their economies under control over the next two or three years, that growth will accelerate to the comfortable levels seen in recent years.

Here is how it will play out for key sectors:

Financial Services - After taking a hit of some \$77 billion, nearly all of it in record insurance payouts after the terrorist attacks of September 2001, this sector seems destined for a quick rebound. Brokerages have already regained their pre-attack trading volume, largely because retirement-minded Baby Boomers have nowhere else to invest their money, and new demand for insurance and lending should make up any losses within two years in those industries. Only the investment bankers appear to have sustained a long-term loss, owing to abandoned mergers and acquisitions.

Media and Advertising - Media revenues have lost an estimated \$6 billion, owing mostly to the postponement of movies that seemed inappropriate in the aftermath from September 11 and cutbacks in advertising by companies hit hard by the economic downturn. This sector is likely to recover when the general economy does.

Real Estate - Property losses in downtown Manhattan ran to an estimated \$10 billion, with nearly \$800 million more in costs at the Pentagon. Another \$4 to \$5 billion in revenues could be lost from commercial rentals in the next year owing to the economic slump. In contrast, housing values are expected to continue rising, if not quite as fast in the recent past. In all, this industry remains healthy, but may not recover its former growth rate until late 2002, or even early 2003.

Retail and Auto - Companies that depend on consumer spending suddenly face lean times, as declining confidence has closed American wallets. The National Retail Federation estimates that the post-September malaise will cost merchandisers some \$5 billion in lost revenues in the fourth quarter of 2001. Yet this still represents a relatively healthy growth rate of 2.2 percent annually. In grim contrast, car sales are expected to be down by 400,000 units, or \$7 billion, this year, with additional lost revenues potentially reaching \$11 billion in 2002. This sector will not recover until after the general economy picks up, probably in late 2002 or Q1 2003.

The recent zero-percent interest rate for 36 to 60 months has considerably reduced the inventory of 2001 and 2002 cars, though only at the cost of sales that might have been made more profitably next year. This all but guarantees that the industry will not recover for most of a year. In late 2002 and 2003, the resumption of sales at normal interest rates should provide a significant business opportunity for auto lenders.

Technology and Telecommunications - Ironically, 9/11 could bring \$10 billion in sales to the computer and telecomm industries, as companies replace hardware lost in the terrorist attacks. However, business lost in the post-attack chaos and the effects of the downturn will more than offset that windfall. Industry analysts say that tech companies will lose up to 5 percent of revenues by the end of 2001, or as much as \$25 billion in all. Again, recovery will follow an upturn in the overall economy by several months.

Biotechnology and pharmaceutical firms, especially those involved in developing antidotes to biological and chemical weapons, should do extremely well. However, because they use technologies and materials closely related to the weapons themselves, these companies will have to invest heavily in security to protect against attack by terrorists seeking weapons.

Transportation - It doesn't get any worse than this: The airlines lost \$5 billion in September alone. A month later, they had cut 20 percent of their flights and 100,000 workers. 2001 revenue losses will total around \$11 billion according to the General Accounting Office—this in an industry that was barely treading water to begin with. Car rentals were down \$1 billion as well, mostly owing to sales lost from airports. Any bright spots in transportation—the few extra seats sold by Amtrak, for example—are negligible. Analysts put any possible recovery off until 2003.

Hospitality - According to a United Nations study, the terrorist attacks of September 11 could cost 9 million jobs in the world's hospitality industry. Orlando's hotels and theme parks are empty, with tourism revenues in the city expected to decline by 20 percent, or \$300 million, by the new year. Hotel occupancy, already down from year-2000 levels, are down by about 15 percent—it was close to 50 percent in major cities in late September!—and the lodging industry is expected to lose up to \$15 billion in late 2001. Restaurant sales will be down by some \$4 billion in the last three months of the year. Even gambling is expected to lose \$1 billion from its fourth-quarter revenues. Destinations within driving distance are picking up some of the income lost by more distant attractions, but the industry will not return to normal until travelers are again willing to risk getting on airplanes.

All this adds up to uncertainty for many industries. Most businesses can withstand a sudden hit that costs 5 or 10 percent of their trade, but only the strongest can survive even a brief loss of half their customers. For many industries, the September 11 attack has meant a sudden shake-out of weak participants. This comes as key parts of the economy were already weakening, particularly the dot-coms that lead the "irrational exuberance" of the 1990s. Though the long-term outlook for the United States remains good, the details of the coming recovery will become clear only as they occur.

These developments are especially important, because the American economy is the engine for the world. Yet developments overseas could eventually help to bail the U.S. out of its slump.

- Even before the downturn of 2001 turned into an economic rout, business investment in equipment and software was expected to be down by 2 percent from levels in 2000, and to grow by only 1 percent in 2002—this after double-digit levels throughout the late 1990s.

- The outlook for Europe remains mixed, but relaxation of borders within the European Union has brought new mobility to the labor force and is making for a more efficient business environment on the Continent.
- An even greater boost to the European economy is the adoption of uniform product standards among EU countries. Under the new protocols, manufacturers no longer have to stock, for example, a dozen kinds of electric plug, one for each national market; eventually, one plug will be enough. This change will dramatically reduce overhead and allow smaller participants to enter the broad Continental market, rather than being effectively confined to their native lands.
- Japan may turn the corner in 2002. The banks' write-off of bad debts, if coupled with better lending practices and other reforms, could set the stage for an economic recovery, which would make Japan a much healthier trading partner for the West.
- The Brazilian economy—a mainstay of the Latin American region—has proved much more resilient than some onlookers feared at the turn of the millennium, but Argentina is slipping badly. Argentina's rich are shipping their wealth overseas, always a warning of possible trouble ahead.
- Many nations of the former Soviet Union are bringing order to their economies, proving themselves viable markets for goods from western Europe. Recently, even Russia appears to be stabilizing its economy, long the weakest link in its region. The discovery of oil in Kazakhstan and new interest in the other "stans" as potential partners in the war on terrorism should further this process.
- Worldwide, improved manufacturing technology will continue to boost productivity and reduce the unit cost of goods. At the same time, workers who remain on the job longer will offset slow growth in the labor force, while the globalization of business will keep pressure on salaries in the developed countries. Thus, both prices and wages should remain under control.

Implications

- The gap between the world's have and have-not nations will continue to widen. In the Middle East and the developing countries, resentment against the prosperous West, especially the United States, will continue to inspire terrorist incidents with growing frequency.
- The gap between haves and have-nots within the United States will grow as well. If Washington is not seen to counter this trend, anti-government actions could become more common and possibly more destructive.
- Downturns provide opportunities as well as challenges. Because recessions do not last forever. We believe this downturn will be over in less than six months, and the corporations with money to make acquisitions, either of businesses or of good personnel, will find many bargains. Because of the good environment, the risk-takers will benefit when the world economy resumes its unprecedented growth.

Implications for Equipment Leasing

- Pre-tax spread (yield vs. cost of funds) in the leasing industry rose from 3.4 percent in 1999 to 3.6 percent in 2000. For the most competitive lessors, a modest further improvement can be expected as the economy recovers from its current slump.
- *For more details, see the Equipment Leasing and Finance Foundation's State of the Industry Report 2001.*

2) THE WORLD'S POPULATION WILL DOUBLE IN THE NEXT 40 YEARS.

- The greatest growth will occur in those countries least able to support their existing populations. Pakistan, for example, will have a growth rate of 2.68 percent per year through 2030; its population will grow from 141 million in 2000 to nearly 199 million in 2020. Ethiopia's growth rate of 3.17 percent per year will push the population from just under 61 million in 2000 to some 90 million 20 years later. India's population will grow by more than 220 million over the period.
- In contrast, birthrates below the replacement level mean that populations will decline significantly in much of the developed world, not counting the uncertain effects of immigration.
- A severe, continuing, and unexplained decline in men's sperm counts in most of the developed world could eventually impair fertility enough to reduce birthrates and populations even further than these estimates anticipate.
- To meet human nutritional needs over the next 40 years, global agriculture will have to supply as much food as has been produced during all of human history.

Implications

- Unless fertility climbs dramatically, either would-be retirees will have to remain on the job, or the industrialized nations will have to encourage even more immigration from the developing world.
- Barring enactment of strict immigration controls, rapid migration will continue from the Southern Hemisphere to the North, and especially from former colonies to Europe. A growing percentage of job applicants in the United States and Europe will be recent immigrants from developing countries.
- Russia is unlikely to attract many new workers from the rest of the world. Barring radical reform of its economic and social policies, so as to provide a more appealing environment for migrants, it is doomed to growing poverty and social unrest, which its leaders will blame on the West.
- Culture clashes between natives and immigrants are likely to destabilize societies throughout the developed world. Germany, Britain, and other lands traditionally welcoming to refugees and other migrants already are experiencing strong backlashes against asylum seekers.
- As the customer base grows ever more diverse, services will have to be tailored to the unique needs of new markets.
- Growing populations are forcing some developing countries to abandon restrictive trade practices in order to compete more effectively in the global marketplace. This will foster the development of a market-oriented world culture.

Implications for Equipment Leasing

- Pressure to improve farm production in the developing world will be intense and lasting. This means mechanization, and therefore a growing market for leasing of farm equipment. At least in the early years, small-ticket items will be preferred—walk-behind cultivators, rather than giant tractors—but in such large numbers that they will add up to significant value. In the long run, larger hardware and more permanent farm infrastructure could begin to find a place in this market.
- Construction also will grow rapidly, as developing countries build housing and services for their expanding populations. This is one industry where uniform

standards are particularly important, if equipment manufacturers and lessors are to serve diverse markets efficiently and economically.

3) THE POPULATION OF THE DEVELOPED WORLD IS LIVING LONGER.

- In the developed lands, healthier diets, more exercise, the decline of smoking in the United States, and the trend toward preventive medicine are extending life-spans. Life expectancies in Japan are entering the 90s, and those in parts of Europe are not far behind.
- The elderly population is growing fastest throughout the developed world. In Europe, the United States, and Japan, the aged also form the wealthiest segment of society.
- These twenty-first-century old folks are much healthier and more active than the elderly of previous generations. At the same time nostalgia also is a strong influence on them. Many older people still want to indulge in the same activities and entertainment they enjoyed in their youth, and they now have more disposable income to spend on them.
- Medical advances that slow the fundamental process of aging now seem within reach; they could well help today's middle-aged baby boomers to live far longer than can be predicted even today.

Implications

- Global demand for services aimed at the elderly can only grow quickly in the coming decades. Medical care in particular will prosper.
- With above-average wealth and relatively few demands on their time, the elderly will make up an ever-larger part of the tourist and hospitality market. This industry will prosper by catering to their needs for special facilities and services. Hotels will offer easy-to-read shop signs and brighter public areas suited to the needs of older visitors. Club Med will become "Club Medic," with doctors on call and a nursing staff for sickly vacationers.
- For those who are not wealthy, the cost of retirement and medical benefits will rise sharply, even as the number of working-age people to pay for them declines.
- If medicine does dramatically extend our life-span and/or preventive medicine receives government funding, the cost of health care will plummet, and retirement and social security plans will have to be revised or scrapped.
- Research to date suggests that any practical extension of the human life-span will prolong health as well and will reduce the incidence of late-life diseases such as cancer. Whether Alzheimer's disease will also be delayed, or will arrive "on schedule" is a critical question for the future.

Implications for Equipment Leasing

- Again, this will boost the global market for heavy construction equipment, particularly in the prosperous industrialized countries, as the growing elderly population requires homes, retirement communities, continuing care facilities, and other specialized accommodations.
- After the terrorist-inspired slump in tourism is past, the growing population of well-to-do oldsters should bring new demand for hotels, resorts, and cruise lines. The current contraction in this industry offers an opportunity for participants with deep pockets to buy up the assets of less fortunate competitors. For lessors,

portfolios heavy in ships, airplanes, and other travel-related items could be attractive.

4) THE GROWTH OF THE INFORMATION INDUSTRIES IS CREATING A KNOWLEDGE-DEPENDENT GLOBAL SOCIETY.

- Telecommunications is removing geographic barriers.
- Information is the primary commodity in more and more industries today.
- Even where it is not the primary product, information transforms industries by making business transparent. Outside new product development, there are few secrets left in most industries. Financial details, market conditions, competitive standing, and technical sophistication are out in the open for customers and marketers alike.
- By 2005, 83 percent of American management personnel will be knowledge workers. Europe and Japan are not far behind.
- By 2005, half of all knowledge workers (22 percent of the labor force) will opt for "flextime, flexplace" arrangements, which allow them to work at home, communicating with the office via computer networks.
- In the United States, the so-called "digital divide" seems to be disappearing. In early 2000, a poll found that where half of white households owned computers, so did fully 43 percent of African-American households, and their numbers were growing rapidly. Hispanic households continued to lag behind, but their rate of computer ownership was expanding as well.
- The "integrated information appliance" will combine a computer, a fax, a picture phone, and a duplicator in one unit for less than \$2,500 (in 1995 dollars) by 2003. The picture will appear on a flat screen of twenty inches by thirty inches. By 2005 or so, such units will include real-time voice translation, so that conversations originating in one of seven or eight common languages can be heard in any of the others.
- Company-owned and industry-wide television networks are bringing programming to thousands of locations. Business TV is becoming big business. Computer competence will approach 100 percent in U.S. urban areas by the year 2005, with Europe and Japan not far behind.
- Eighty percent of U.S. homes will have computers in 2005, compared to roughly 50 percent now.
- No fewer than 80 percent of Web sites are in English, which has become the common language of the global business and technology communities.
- In the United States, five of the ten fastest growing careers between now and 2005 will be computer-related. Demand for programmers and systems analysts will grow by 70 percent. The same trend is accelerating in Europe, Japan, and India.
- By 2005, nearly all college texts and many high school and junior high books will be tied to Internet sites that provide source material, study exercises, and relevant news articles to aid in learning. Others will come with CD-ROMs that offer similar resources.
- Internet links will provide access to the card catalogs of all the major libraries in the world by 2005. It will be possible to call up on a PC screen millions of volumes from distant libraries. Web sites enhance books by providing pictures, sound, film clips, and flexible indexing and search utilities.

- Encyclopedic works, large reference volumes, and heavily illustrated manuals already are cheaper to produce and sell on the Internet or as CD-ROMs than in print form.

Implications

- As buyers learn more about products available to them, those products are becoming increasingly commoditized. Low prices are taken for granted, so competition must be based on flexible and responsive customer service. At the same time, because customers are more knowledgeable, they generally need less hand-holding than in the past.
- Purchasing decisions increasingly are based on visceral issues of trust and loyalty to suppliers, rather than on factual details of the product or business terms.
- Anyone with access to the Internet will be able to achieve the education needed to build a productive life in an increasingly high-tech world. Computer learning may even reduce the recidivism rate of the growing American prison population.
- Knowledge workers are generally better paid than less skilled workers. Their proliferation is raising overall prosperity. Even entry-level workers and those in formerly unskilled positions require a growing level of education. For a good career in almost any field, computer competence is mandatory. This is one major trend raising the level of education required for a productive role in today's work force. For many workers, the opportunity for training is becoming one of the most desirable benefits any job can offer.
- When information flows freely, it becomes increasingly necessary to compete through service to customers, rather than on the basis of low prices or other traditional values.

Implications for Equipment Leasing

- International markets for business equipment, computers, peripherals, and information technology can only grow rapidly in the years ahead. This trend will be particularly kind to lessors of business equipment, where the pressure is to get work done, not to have cutting-edge technology. Business hardware recovered at the end of a lease can be refurbished and sent out again to less prosperous markets, as in the "sell it four times" policy pioneered long ago by Xerox, which refurbished and leased increasingly antiquated equipment first to American companies, then to those in Britain, to firms in Europe and the more prosperous Third World lands, and finally to the impoverished countries of Africa.
- Maintenance and other support activities are likely to be part of the package for leases of business equipment and other high technology to less developed countries.
- At the same time, new technology is providing new products that many users may wish to lease. One example: automatic language translators that will bring new convenience to the hospitality industry, at least until English becomes a universal second language—a process already well under way.
- Your customers are nearly as familiar with the leasing business as you are, and with what the competition has to offer. They must learn to trust you and your company, and thereby to build up the kind of loyalty that fosters long-term relationships.

5) GROWING ACCEPTANCE OF CULTURAL DIVERSITY, AIDED BY THE UNIFYING EFFECT OF MASS MEDIA, IS PROMOTING THE GROWTH OF A TRULY INTEGRATED GLOBAL SOCIETY. HOWEVER, THIS IS SUBJECT TO CHANGE.

- Our beliefs and values are shaped by what we see and hear. Throughout the United States, people have long seen the same movies and TV programs. These media are achieving global reach. In 1999, American films took in about \$29.8 billion of the \$33.4 billion earned by the world's movie industries.
- Information technologies promote long-distance communication as people hook up with the same commercial databases and computer networks, and above all with the Internet.
- New modes of transportation, automated traffic-management systems and other highway technologies, more and better accommodations (thanks to the growth of the hospitality industry), more leisure time, and greater affluence will encourage more frequent travel. Common-carrier passenger miles have grown by nearly 4 percent per year since the late 1980s and show no sign of slowing down. This will produce a greater interplay of ideas, information, and concerns.
- Within the United States and Europe, regional differences, attitudes, incomes, and lifestyles are blurring as business carries people from one area to another.
- Intermarriage also continues to mix cultures geographically, ethnically, socially, and economically.
- Minorities are beginning to exert more influence over national agendas as the growing number of blacks, Hispanics, and Asians in the United States is matched by the expanding population of refugees and former "guest workers" throughout Europe.
- Soon there will be no more "foreign languages." By 2004, automatic translation systems, already in use by the military, will make it possible for people without a language in common to hold real-time conversations, in person or on the telephone.

Implications

- Over the next half-century, growing cultural exchanges at the personal level will help to reduce some of the conflict that plagued the twentieth century. This is likely to produce a reactionary backlash in societies where xenophobia is common. Some of the most fervent "culturalist" movements will spring from religious fundamentalism. Would-be dictators and strong-men will use these movements to promote their own interests, ensuring that ethnic, sectarian, and regional violence will remain common. Terrorism especially will be a continuing problem.
- Companies will hire ever more minority workers and will be expected to adapt to their values and needs.
- In the United States, small businesses are increasingly owned by Asians and African-Americans. European countries are seeing a similar pattern among refugees and former "guest workers." Cultural conflicts may become more common, and dealing with them will require awareness and sensitivity. For example, American business traditions hold that negotiations are over once an agreement has been reached; in the traditions of some entrepreneurs newly arrived from Asia, negotiations continue until payment has been received.

Implications for Equipment Leasing

- This trend is particularly felt in the hospitality industry, where the management of cultural exchanges and potential conflicts are the participants' stock in trade. Lessors financing equipment for this industry may increasingly find themselves coping with the same opportunities for conflict and misunderstanding experienced by the underlying industry.
- At the same time, expanding into unfamiliar overseas markets, whether directly or by acquisition of the portfolios of less well-funded competitors, will expose some lessors more directly to cultural conflicts. Managing these frictions will be a growing priority for growing industry participants.

6) THE GLOBAL ECONOMY IS GROWING MORE INTEGRATED.

- Rather than paying salaries and benefits for activities that do not contribute directly to their bottom line, companies are farming out secondary functions to suppliers, service firms, and consultants, which increasingly are located in other countries.
- In the European Union, the relaxation of border and capital controls and the use of a common currency are making it still easier for companies to farm out support functions throughout the Continent.
- Western corporations are having to adapt to Asian priorities. Where the West emphasizes "resource capital"—money and equipment—Eastern societies are more concerned with "human capital"—education, cooperation, and the other practices that make the best use of people.
- New industrial standards—for building materials, fasteners, even factory machines—allow buyers to order from almost any supplier, rather than only from those with whom they have established relationships. The proliferation of standards is one of today's most important industrial trends.
- To aid in "just-in-time" purchasing, many suppliers are giving customers direct online access to their computerized ordering and inventory systems. Increasingly often, the order goes directly from the customer to the shop floor, and even into the supplier's automated production equipment. Many manufacturers will no longer deal with suppliers who cannot provide this access, and the number grows daily. Thanks to the Internet, this form of integration is possible worldwide.
- The Internet and cable-TV home shopping channels are bringing retailers and manufacturers closer to distant customers, who have been out of reach.
- New procurement regulations and standards also promise to open the government market to suppliers who previously found the bidding process too difficult, costly, or just confusing.

Implications

- Demand for personnel in far-off lands will increase the need for foreign-language training and documentation, employee incentives suited to other cultures, aid to executives going overseas, and the many other aspects of doing business in other countries.
- As translation devices relieve language problems in the short run, and the spread of English as a second language provides a more basic solution over the next generation, travel and international business will grow rapidly.
- Eastern Europe is likely to require a major investment in personnel development over the next ten years.

- Consolidation of standards makes it more practical for manufacturers in one country to shop for parts in another. In Europe, especially, this is quickly changing established business patterns and creating new demand.
- The growth of commerce on the Internet makes it possible to shop globally for all manner of raw materials and supplies, thus reducing the cost of doing business. In niche markets, the Internet also makes it possible for small companies to compete with giants worldwide with relatively little investment.
- In the wake of the “Asian flu,” Western companies may have to accept that proprietary information will be shared, not just with their immediate partners in Asian joint ventures, but with other members of the partners’ trading conglomerates.

Implications for Equipment Leasing

- Growth of international standards will help to minimize investment and improve efficiency, by allowing delivery of the same hardware to many markets. This is particularly important to lessors specializing in the products of one company, as it reduces the cost disadvantage inherent in customizing equipment to fit many national standards.
- This also makes it easier to lease used and refurbished hardware to less prosperous markets overseas.
- It also means that competition from low-wage producers will grow still more intense, as they too benefit from uniform standards. This may present an opportunity for lessors to deliver more low-cost products to customers in the U.S. and other high-wage markets.
- “Captive” lessors operated by American equipment manufacturers are at a disadvantage in global markets, because the high-value dollar inflates their prices compared with those of foreign competition. This is not likely to change at least until early 2003.

Trends in Values and Concerns

7) YOUNG PEOPLE PLACE GROWING IMPORTANCE ON ECONOMIC SUCCESS, WHICH THEY HAVE COME TO EXPECT.

- Generations X and dot-com have known only good economic times and, while most expect hardship on the national level, they both want and expect prosperity for themselves.
- Growing numbers of people now become entrepreneurs. This trend began in America, but it is taking hold rapidly in such diverse places as Europe, Japan, and India.
- In the United States especially, most young people have high aspirations, but may lack the means to achieve them. Only one in three high school graduates goes on to receive a college degree. Many of the rest wish to go, but cannot afford the high cost of further schooling.
- Without higher education, expectations may never be met. In 1996, male high school graduates not enrolling in college earned an average of 28 percent less, in constant dollars, than a comparable group in 1973.

- In addition, more young people report no earnings—up from 7 percent of all 20- to 24-year-old men in 1973 to a relatively constant 12 percent since 1984.

Implications

- The emphasis on economic success will remain powerful. Stress will keep step with it.
- This will prove to be a global trend, as members of Generations X and Dot-com tend to share values throughout the world.
- If the current economic downturn becomes unexpectedly deep or prolonged, members of these generations will find it difficult to cope, both personally and as business leaders. They will need guidance from their Boomer parents and World War II-era grandparents, who have seen hard times before. This could trigger a move to re-hire older workers cut during the downsizing of the 1990s, to restore or acquire the kind of institutional memory that helps companies meet challenges not encountered regularly.
- If younger-generation workers in developing lands find their ambitions thwarted by local conditions, they will create growing pressure for economic reform and deregulation. Entrepreneurialism is likely to spread to parts of the world where corporate careers have been the rule. This will represent yet another major change for Japan, where the recent loss of lifetime job security still has not been fully absorbed.
- If reforms do not come fast enough in the developing world, disappointed expectations will drive underemployed young men into fringe political and religious movements. This could cause a new wave of terrorism and instability in the years after 2005 or so.

Implications for Equipment Leasing

- Even though unemployment remains low by historical standards, it is still the highest it has been in at least eight years. This should give companies in relatively “unglamorous” industries such as leasing a better chance to compete for talented, skilled personnel who in the 1990s would have opted for careers in high-tech or Wall Street. IT professionals especially could be more available now than at any time in recent memory.
- At the same time, downsizing of the leasing industry has opened at least the possibility of hiring personnel with industry-specific experience from failed competitors.
- However, leasing firms will have to offer salaries and benefits at least in line with those of high-tech glamour fields to attract and retain young workers for whom corporate loyalty means far less than their personal bottom lines.

8) TOURISM, VACATIONING, AND TRAVEL (ESPECIALLY INTERNATIONAL) WILL CONTINUE TO GROW BY ABOUT 5 PERCENT PER YEAR FOR THE NEXT DECADE, AS IT DID THROUGHOUT THE 1990S.

- The sudden drop in travel after the attack on the World Trade Center and Pentagon will not last. By late 2002, travel should again be growing steadily.
- Telephones, e-mail, conference calls, and other high-tech communications will not replace the “high-touch” meetings where contacts and contracts are made.
- People have more disposable income today, especially in two-earner families.

- The number of Americans traveling to foreign countries (excluding Canada and Mexico) increased at 5 percent per year from 1981 through 1996. Growth will continue at that rate for the foreseeable future.
- Through at least 2002, depressed Asian currencies will make it cheaper to visit the far East.
- By 2010, air travel for both business and pleasure will reach triple the 1985 rate.
- Tourism will benefit as Internet video replaces printed brochures in promoting vacation destinations. Web sites cover not only popular attractions, but current, detailed information on accommodations, climate, culture, currency, language, immunization, and passport requirements.
- Multiple, shorter vacations spread throughout the year will continue to replace the traditional two-week vacation.
- More retirees will travel off-season, tending to equalize travel throughout the year and eliminate the cyclical peaks and valleys typical of the industry.

Implications

- By 2008, one of every ten people in the United States will work for the hospitality industry.
- Tourism offers growing opportunities for out-of-the-way destinations that have not yet cashed in on the travel boom.

Implications for Equipment Leasing

- The current downturn in tourism has already led to the collapse of several airlines and cruise operators. More such contractions can be expected over the next year, with the stronger competitors buying the weaker, buffeting lessors doing business with the affected carriers.
- Loss of competition in the airline industry also has expanded the mothball fleet in the American southwest. These unused airplanes represent an overhead of carrying capacity that could depress new-plane leasing for some time to come.
- Though the growth of e-mail and other high-tech communications has reduced the need for personal meetings, most industries have found that “high touch” remains necessary to build contacts and contracts. Thus the meetings and expositions industry is still growing rapidly. It will help to prop up the hospitality industry and provide something of a floor for this leasing market.

9) THE PHYSICAL-CULTURE AND PERSONAL-HEALTH MOVEMENTS WILL REMAIN STRONG, BUT FAR FROM UNIVERSAL.

- Emphasis on preventive medicine is growing. By 2003, some 90 percent of insurance carriers in the U.S. will expand coverage or reduce premiums for policyholders with healthy lifestyles.
- Personal wellness, prevention, and self-help will be the watchwords for a more health-conscious population. Interest in participant sports, exercise equipment, home gyms, and employee fitness programs will create mini-boom industries.
- Sixty-six percent of those answering a recent Harris poll claimed to have changed their eating habits in the past five years. Americans today eat lighter fare than in 1970, consuming nearly twice as much chicken, over 25 percent more

fish, and four times as much low-fat and skim milk per capita. However, this trend has not yet had a similar impact on Europe.

- Consumer purchases show a per capita decline in annual liquor sales. Consumption of distilled liquors has declined, on average, for some two decades, while that of beer and wine accounts for more of the market. Younger drinkers have revived the once passé taste for mixed drinks, but have proved to be uncommonly responsible drinkers. Most limit themselves to one or two drinks with a meal, and “designated drivers” are standard practice.
- Smoking is also in general decline. Only 29 percent of American men smoke, down from a peak of 50 percent; 23 percent of women smoke, down from 32 percent. With state and federal cigarette-tax increases, further declines of 10 percent are expected. Europe, on the other hand, has yet to kick the habit, while smoking is spreading rapidly in Asia.
- There are many more magazines on health care and fitness than in the past. Again, this trend is limited to North America.
- People will be more inclined to take steps to control stress as they realize that 80 percent to 90 percent of all diseases are stress-related.

Implications

- Better health in later life will make us still more conscious of our appearance and physical condition. Thus, health clubs will continue to boom. Diet, fitness, stress control, and wellness programs will prosper. American tobacco companies could eventually look back on the litigation-filled 1990s as the good old days, at least in their U.S. market.
- Again, this promises a greater supply of post-retirement workers to compensate (but only partially) for the shortage of entry-level hires from the new generations.
- It also will add to the growing strain on retirement programs and medical care for the elderly, as such diseases of old age as arthritis and Alzheimer’s disease are pushed back later in life, but probably are not eliminated.
- However, the cost of health care for American baby boomers and their children could be much lower in later life than is now believed. However, Asia faces an epidemic of cancer, heart disease, and other chronic and fatal illnesses related to health habits.

Implications for Equipment Leasing

- In the United States, this may provide opportunities for micro-scale leasing, as hospitals expand into the health-club market, current participants expand their operations, and manufacturers of high-end exercise equipment market their products to consumers, rather than solely to gymnasiums and health spas.
- Providing employee health clubs and similar “wellness”-oriented benefits could give leasing companies an edge—or at least keep them from becoming even less competitive—in recruiting talented personnel who might otherwise go to other industries.

10) CONSUMERISM IS STILL GROWING RAPIDLY.

- A networked society is by definition a consumerist society. Shoppers increasingly have access to information about pricing, services, delivery time, and customer satisfaction from the reports of their peers “published” on the Internet. Marketers, of course, can also check the competitors’ offerings. This may

gradually halt the decline of prices and shift competition increasingly to improvements in service and salesmanship.

- Consumer agencies and organizations will continue to proliferate.
- Better information—unit pricing, better content labels, warning labels, nutrition data, and the like—will spread through packaging, TV, and special studies and reports.
- Discount stores such as Home Depot and Wal-Mart, factory outlets, and food clubs will continue to grow in the United States, a trend that has just begun to spread to Europe and Japan.

Implications

- In the next 20 years, Europe and Japan can expect to undergo the same revolution in marketing that has replaced America's neighborhood stores with cost-cutting warehouse operations and "category killers."
- This rationalization of Japan's distribution networks will make it more difficult for Tokyo to inhibit encroachment on its home markets by Western suppliers. Over time, this added competition will force Japan to adopt ever more American-style business practices, weakening its tight network of traditional corporate relationships and making it easier for foreign investors and competitors to enter the Japanese marketplace. Ultimately, it could enable the lending reforms needed to stabilize the country's banking system.
- Ultimately, fixed prices will be history, with many goods and services sold through online auctions to the highest bidders.
- As prices fall to commodity levels and online "stores" can list virtually every product and brand in their industry without significant overhead, service is the only field left in which marketers on and off the Net can compete effectively.
- Branded items with good reputations are even more important for developing repeat business.

Implications for Equipment Leasing

- The consumer movement took a significant hit on 9/11. Suddenly, it has become unpatriotic to question the motives and methods of American industry leaders, much less the quality of their products. This should give a significant boost to micro-market lessors of American products.
- With consumer confidence down—probably until the second quarter of 2002—sales incentives such as zero-percent financing in the auto industry have reduced the visible appeal of leasing, even though the underlying economic benefits remain unchanged. This will pass as the economy recovers.
- That process already is under way. Witness the dramatic recovery in the stock market, which was nearly at pre-9/11 levels by mid-November, and the unprecedented jump in consumer sales—7.1%, fully 5% more than anticipated!—in October 2001. Leasing markets, like the rest of the economy, should be nearly back to normal by the second quarter of 2002.

Energy Trends

11) DESPITE ALL THE CALLS TO DEVELOP ALTERNATIVE SOURCES OF ENERGY, OIL CONSUMPTION IS STILL RISING RAPIDLY.

- The world used only 57 million barrels of oil per day in 1973, when the first major price shock hit. By 1999, it was using more than 73 million barrels daily. Consumption is expected to reach 110 million barrels daily by 2020.
- However, as a fraction of the energy the world uses, oil consumption has actually begun to decline—from 40 percent in 1999 to an estimated 37 percent in 2020.
- OPEC will supply most of the world's oil. According to the U.S. Department of Energy, OPEC oil production will grow by some 24 million barrels of oil per day by 2020, to about 55 million barrels of oil per day. This is nearly two-thirds of the world's total increase in production.
- Oil production outside the OPEC nations has not yet peaked. Existing wells and refineries are operating below capacity, and at least a few non-OPEC lands have enough proven reserves to justify building more. By 2010, China, Russia, and Kazakhstan will be major suppliers—if political uncertainties in Russia and Kazakhstan do not block investment by Western oil companies.

Implications

- Low oil prices in the mid- to late-1990s slowed development of fields outside the Middle East. It costs \$10,000 to increase oil production by one barrel per day in most of the world, only \$5,500 for the OPEC countries. The recent surge in the price of oil—which hit a 10-year high of \$37.80 per barrel in September 2000, could offer an incentive to develop new fields. Any significant growth in Muslim anger against the United States could inspire government policies designed to stimulate the American petroleum industry as a safeguard against any repetition of the oil crises of the early 1970s.

Implications for Equipment Leasing

- Russia, China, the “stans,” and perhaps India all will provide significant leasing markets for drilling and other oil-field equipment.
- American refinery capacity is likely to expand as well, providing a growing market for leased equipment.
- Opening of the Alaska wilderness reserve to oil drilling, which Forecasting International believes is much more probable than not, could provide an expanded leasing market within the U.S. Drilling is likely to be limited to the winter, when frozen ground will minimize the environmental impact, and to the smallest possible “footprints.” This could require the development or production of specialized equipment that eventually will prove attractive in other markets.
- If the Alaskan wilderness is opened to drilling, the largest single demand for equipment is likely to be pipeline construction.

12) OIL PRICES ARE LIKELY TO REMAIN GENERALLY AROUND \$24 TO \$26 PER BARREL FOR AT LEAST THE NEXT 10 YEARS.

- Except in times of war or economic crisis, the benchmark West Texas Crude has remained between \$17 and \$21 per barrel almost continuously since 1986.
- OPEC's recent decision to hold a range of \$24 to \$30 per barrel requires a unity of purpose that member countries have never been able to sustain for very long.

The current collapse in oil prices despite OPEC's best efforts is the rule, not the exception.

- However, oil prices have declined in part as a result of this year's economic contraction. As the recession passes in 2002, oil prices are likely to recover to the high end of their traditional range.
- The cost of oil production in the Persian Gulf countries is less than \$1.75 per barrel
- The Persian Gulf War showed how vulnerable oil prices really are. The attack on Kuwait more than doubled oil prices for a few weeks; they fell back to pre-conflict levels long before the war ended. Not even the destruction of Kuwait's oil fields could keep prices high. New oil supplies coming on line in the former Soviet Union, China, and other parts of the world will make it even more difficult to sustain prices at artificially high levels.
- The 20 most industrialized countries all have at least three-month supplies of oil in tankers and underground storage. Most have another three months' worth in "strategic reserves." In times of high oil prices, customer nations can afford to stop buying until the costs come down.

Implications

- In response to high (by American standards) gas prices in the summer of 2000, the U.S. government will probably boost domestic oil production and refining to build a substantial reserve of gasoline and heating oil. This stockpile would be ready for immediate use in case of future price hikes, as in the Winter 2000 release from strategic reserves. This will make it easier to negotiate with OPEC.
- One upward pressure on the price of American gasoline: EPA regulations mandating the production of low-sulfur fuel. They are expected to add about 4 cents per gallon to the cost of filling up. Similar regulations will add 6 cents per gallon to the price of diesel fuel.

Implications for Equipment Leasing

- Relatively high oil prices were one more factor depressing the growth of manufacturing, transportation, and trade, and therefore the leasing of equipment for these industries. As the world economy recovers, the cost of energy should weigh less on business expansion and the acquisition of equipment.

Environmental Trends

13) PEOPLE AROUND THE WORLD ARE BECOMING INCREASINGLY SENSITIVE TO ENVIRONMENTAL ISSUES SUCH AS AIR POLLUTION, AS THE CONSEQUENCES OF NEGLECT, INDIFFERENCE, AND IGNORANCE BECOME EVER MORE APPARENT.

- Soot and other particulates will come in for still greater scrutiny. Evidence has been collecting since the 1980s that they are more dangerous to human health than sulfur dioxide and other gaseous pollutants formerly believed to present the worst risks. In the United States alone, medical researchers estimate that some 64,000 people die each year from cardiopulmonary disease as a direct result of breathing particulates.

- In India, government policies consistently favor industrial development over the environment. Yet in an effort to reduce air pollution, the Supreme Court not long ago limited sales of new cars in New Delhi to 18,000 per year, less than one-fourth the average sold in recent years.
- In the United States, the battle against automotive air pollution continues with an EPA mandate cutting tailpipe emissions 70 percent by 2004. New equipment required to meet that limit will add an estimated \$100 to \$150 to the sticker price of a new car, and probably more for SUVs, trucks, and vans.
- Acid rain like that afflicting the United States and Canada will appear whenever designers of new power plants and factories neglect emission controls. Look for it to cover China, India, and most other industrializing countries.

Implications

- Governments will take more-active measures to protect the environment. For instance, after years of ineffective gestures, Costa Rica has incorporated about 25 percent of its land into protected areas, such as national parks.
- Late in 1999, Brazil raised the maximum fine for illegal logging in the Amazon rain forest from only \$2,750 to more than \$27 million. It also changed legal procedures so that the fines can actually be imposed. An estimated 80 percent of logging in the Amazon basin is illegal.

Implications for Equipment Leasing

- The trend toward greater transparency means that consumers and environmental activists are more aware of corporate activities and policies. Companies can expect their environmental records to come under even closer scrutiny in the future. Lessors may find that activists target their activities as one more means of pressuring equipment lessees to improve their environmental policies.
- Scrubbers and other antipollution equipment will form a growing market for equipment leasing.

14) INDUSTRIAL DEVELOPMENT IS CONSIDERED IN MANY PARTS OF THE WORLD TO BE FAR MORE IMPORTANT THAN ENVIRONMENTAL CONCERNS. BROAD REGIONS OF THE PLANET THEREFORE WILL BE SUBJECT TO POLLUTION, DEFORESTATION, AND OTHER ENVIRONMENTAL ILLS IN THE COMING DECADES.

- In 1999, *Samachar*, an Internet newspaper from India, asked its readers what significant problems face their country. Despite rampant deforestation, widespread air and water pollution, loss of biodiversity, and many other such problems, environmental degradation came in next-to-last among 10 issues, cited by only 1 percent of the respondents.
- "A deep and abiding distrust of environmental imperatives has been cultivated in large segments of South Africa's population," thanks to years of apartheid-era restrictions that were often justified as environmental measures, according to a study of environmental business opportunities by Industry Canada.
- Some 70 percent of the energy used in China comes from coal-burning power plants, few of which are equipped with pollution controls. Scientists estimate that by the year 2025, China will emit more carbon dioxide and sulfur dioxide than the United States, Japan, and Canada combined.

- About half of the world's wetlands disappeared in the 20th century. Another 50 percent of coastal wetlands could vanish by 2080.

Implications

- Diseases related to air and water pollution will spread dramatically in the decades ahead. Already, chronic obstructive pulmonary disease is five times more common in China than in the United States. This is just a foretaste of future problems, and perhaps not the most troublesome. If global warming is still a debatable issue, it seems likely that China and India soon will produce enough greenhouse gasses to prove that human activities are heating the atmosphere to destructive levels. Helping the developing lands to raise their standards of living without causing wholesale pollution will require much more aid and diplomacy than the developed world has even been willing to devote to this cause.

Implications for Equipment Leasing

- Despite their fundamental disinterest in environmental causes, the governments of developing lands are likely to find themselves compelled to clean up their industries. This could stimulate rapid growth of the market for antipollution equipment in these countries five to ten years ahead.
- To the extent that these governments ignore demands to improve their environmental records, non-governmental organizations are likely to supply equipment and expertise for them. This equipment is likely to be leased, not purchased, with maintenance contracts a significant part of the package.

Technology Trends

15) TECHNOLOGY INCREASINGLY DOMINATES BOTH THE ECONOMY AND SOCIETY.

In all fields, the previous state of the art is being replaced by new high-tech developments ever faster. New models are more powerful, faster, cheaper—and obsolete by definition the moment end users can lay hands on them.

- Technological advances such as powerful personal computers, robotics, and CAD/CAM continue to change the way people live and work. Computers also add an estimated 1.5 percent to the U.S. economy.
- Mundane commercial and service jobs, environmentally dangerous jobs, and assembly and repair of space-station components in orbit increasingly will be done by robots. Personal robots will appear in the home by 2010.
- Computers are fast becoming part of our environment, rather than just tools we use for specific tasks. With wireless modems, portable computers give us access to networked data wherever we go. The growing “intelligence” of such artifacts as telephones, televisions, and even refrigerators will make it increasingly difficult to avoid computers, but will bring new efficiency and convenience to daily activities.
- Global sales of packaged software are growing at a rate of more than 15 percent per year.
- Satellite-based telephone systems and Internet connections and other wireless links will simplify relocation of personnel, minimize delays in accomplishing new

installations, and let terminals travel with the user instead of forcing the user to seek out the terminal.

- By 2005, artificial intelligence, data mining, and virtual reality will help most companies and government agencies to assimilate data and solve problems beyond the range of today's computers. AI's uses include robotics, machine vision, voice recognition, speech synthesis, electronic data processing, health and human services, administration, and airline pilot assistance.
- By 2005, expert systems will permeate manufacturing, energy prospecting, automotive diagnostics, medicine, insurance underwriting, and law enforcement.
- Superconductors operating at or near room temperature will be in commercial use soon after 2015. Products will include supercomputers the size of three-pound coffee cans, electric motors 75 percent smaller and lighter than those of today, practical hydrogen-fusion power plants, electrical storage facilities with no heat loss, and noninvasive analyzers that can chart the interaction of brain cells.
- The engineering, technology, and health industries will all grow rapidly, and many new biotechnology jobs will open up.

Implications

- New technologies often require a higher level of education and training to use them effectively. They also provide dozens of new opportunities to create businesses and jobs.
- Automation will continue to cut the cost of many services and products, making it possible for companies to reduce prices while still improving profits. This will be critical to business survival as the Internet pushes the price of most products to the commodity level.
- New technology also will make it easier for industry to minimize and capture its effluent, a crucial ability in the environmentally conscious future.

Implications for Equipment Leasing

- The vast proliferation of high-tech products brings new items daily that can be financed by lessors.
- Leasing becomes an even more attractive alternative to the purchase of high-tech equipment, because it offers a guarantee against obsolescence: Lessors by definition can opt for the latest cutting-edge hardware at the end of each leasing period.
- The brief useful life of the highest high-tech equipment before it is replaced by something even more advanced means that leasing contracts must be front-loaded to recover costs and provide profit in ever shorter periods.
- It also provides an even greater incentive to develop secondary markets for refurbished equipment in countries where yesterday's cutting edge still represents a major advance in capability.

16) RESEARCH AND DEVELOPMENT PLAYS A GROWING ROLE IN THE ECONOMY.

- R&D outlays as percent of GNP rose steadily in the decade after 1978, then stabilized in 1988. Future increases will pace the growth of the GNP.
- R&D outlays are growing most rapidly in the information technology, electronics, biotechnology, aerospace, pharmaceuticals, and chemical industries. One result of this can be seen in the prosperity of the NASDAQ stock market, which emphasizes research-oriented, long-term payoff industries.

- Jobs created by high-tech exports are more than replacing those lost to foreign competition under the North American Free Trade Association and similar agreements, providing a net gain in employment.

Implications

- New technology will continue to transform the way we live and work. The demand for scientists, engineers, and technicians will continue to grow, particularly in fields where research promises an immediate business pay-off.
- Low-wage countries such as China will take low-wage jobs from advanced industrialized countries such as the United States, but those jobs will be replaced by high-wage jobs in telecommunications and other fields
- Countries like India, China, and Russia will continue to suffer a substantial brain drain as those with high-tech skills emigrate to the United States and other high-demand, high-wage destinations. This will adversely affect the economies of the “donor” countries.

Implications for Equipment Leasing

- As in the environmental field, NGOs are more likely to lease cutting-edge equipment for developing countries than the end users are to lease it for themselves.
- Displacement of last-year’s cutting-edge equipment by even more advanced products will provide a steady stream of upgrade leasing in the developed countries and of refurbished equipment for lease to secondary markets.

17) ADVANCES IN TRANSPORTATION TECHNOLOGY WILL SPEED TRAVEL AND SHIPPING, BOTH ON LAND AND IN THE AIR.

- By 2012, New York, Tokyo, and Frankfurt will emerge as transfer points for passengers of high-speed, large-capacity supersonic planes.
- Following European practice, the U.S. airline industry will begin to replace the spokes of its existing hub-and-spoke system with high-speed trains for journeys of 100 to 150 miles.
- The average life of a car in the United States soon will be 22 years. For a Volvo, it is already nearing 20 years.
- Advances in automobile technology are rapidly giving us the "smart car." Standard features soon will include equipment available now only as costly options—antilock brakes, active suspension, and global positioning receivers that make it all but impossible to get lost—and gadgets still under development: road-condition sensors, computer-orchestrated fuel-injection systems, continuously variable transmission, automated traffic-management systems, smart seats that tailor the air bag’s inflation to the passenger’s weight, and many other innovations. These all will be in common use by 2010.
- Between 2005 and 2010, fuel-efficient hybrid gas-electric cars will begin to win market share from traditional gas guzzlers.
- The United States will lag in adopting new highway technology. Though systems that allow traffic lights and the roadbed itself to interact with cars are already available, it will not be until at least 2005 that Washington begins to install them in the most heavily used roadways throughout the country.
- To reduce the number and severity of traffic accidents, trucks will be exiled to car-free lanes, and the separation will be enforced.

- Airline crashes will decline, and will involve fewer fatalities, thanks to such technical advances as safer seat design, flash-resistant fuels, and the use of satellites for navigation and communication in transoceanic flights.

Implications

- One of the fastest growing transport industries is trucking, in part because computers encourage “just-in-time” manufacturing. Deliveries for Internet-based companies are an expanding market for shipping.
- More-efficient vehicles, especially with hybrid power trains, should begin to reduce the demand for oil by 2008, easing one of the few remaining sources of inflation.
- By 2010, “smart car” technologies will begin to reduce deaths due to auto accidents in the United States and Europe.

Implications for Equipment Leasing

- Expect to see at least one more major airline fail before the current downturn is over. This will improve load factors for the survivors.
- Many airplanes and ships will be available for lease.
- Contraction of this industry means that there will be few large sales in 2002.
- Pent-up demand could lead to a burst of leasing when the economy recovers, but this effect is not likely to materialize until 2003.

18) THE PACE OF TECHNOLOGICAL CHANGE ACCELERATES WITH EACH NEW GENERATION OF DISCOVERIES AND APPLICATIONS.

- The design and marketing cycle—idea, invention, innovation, imitation—Is shrinking steadily. Thus, products must capture their market quickly, before the competition can copy them. As late as the 1940s, the product cycle stretched to 30 or 40 years. Today it seldom lasts 30 or 40 weeks.
- Industry will adopt new production technologies as rapidly as they can be developed.
- Computer-aided design in the automobile and other industries shortens the lag time between idea and finished design.
- All the technological knowledge we work with today will represent only 1 percent of the knowledge that will be available in 2050.

Implications

- Industries will face much tighter competition based on new technologies. Those who adopt state-of-the-art methods first will prosper. Those who ignore them eventually will fail.

Implications for Equipment Leasing

- Rapid turnover in leased equipment means that leases must be shorter, with more money on signing, to ensure the lessor’s profit.
- This reduces the low-down-payment appeal of leasing, but customers benefit instead by the guarantee that they will not be locked into last-year’s technology.

19) IMPORTANT MEDICAL ADVANCES WILL CONTINUE TO APPEAR ALMOST DAILY.

- Medical knowledge is doubling every eight years.
- The Human Genome Project has already begun to yield promising new treatments for genetic disease. Early results include possible cures for hemophilia,

cystic fibrosis, familial hypercholesterolemia, a variety of cancers, and AIDS.

Eventually, some 4,000 hereditary disorders may be prevented or cured through genetic intervention. Many such treatments will enter clinical testing by 2005.

- The discovery that a hormone called human chorionic gonadotropin, or hCG, appears in all cancer cells tested thus far, and (among adults) only in cancer cells, seems to promise the development of a generalized “cure for cancer.” If early tests pan out, by 2010, and possibly sooner, tumors will be treated routinely and successfully with simple injections in the family doctor’s office.
- Because of these and other advances, the need for hospital and hospice care could plummet. Except where surgery is required, most patients will be treated at home by nurse practitioners, physician’s assistants, technicians, and other nonphysician providers. When we eventually come to the end of our days, any final illness is likely to will require brief hospice care, not the protracted hospital stay that many of us have come to fear.
- By 2005, artificial blood will begin to stretch the supply of blood, which is expected to fall short of demand by 4 million units per year for the next 30 years.
- Memory-enhancing drugs should reach clinical use by 2010.
- The ethical issues raised by technologies such as organ transplants, artificial organs, genetic engineering, cloning, and DNA mapping will cause a growing public debate. Among the key problems: surrogate motherhood, how to distribute medical resources equitably, when to terminate extraordinary life-support efforts, and whether fetal tissues should be transplanted to adults in order to combat disease. In the end, these debates will be resolved on the side of disease prevention. Therapies designed to correct or prevent genetic defects will be accepted. Elective procedures intended to change eye or skin color, or even for generally desirable goals, such as to improve intelligence or physical stamina, will be banned.
- New computer-based diagnostic tools will give doctors unprecedented images of soft and hard tissues inside the body, eliminating much exploratory surgery.
- “Magic bullet” drug-delivery systems will make it possible to direct enormous doses of medication exactly where they are needed, sparing the rest of the body from possible side effects. This will improve therapeutic results in many conditions that require the use of powerful drugs.
- “Bloodless surgery” using advanced lasers is reducing patient trauma, continues to shorten hospital stays, and help lower medical costs.
- Brain-cell and nerve-tissue transplants to aid victims of retardation, head trauma, and other neurological disorders will enter clinical use by 2005. So will heart repairs using muscles from other parts of the body. Transplanted animal organs will find their way into common use. Laboratory-grown bone, muscle, and blood cells also will be used in transplants.
- Pacemakers will contain built in shockers (like the paddles in the emergency room), saving heart patients even before emergency medical personnel arrive.
- In the next ten years, we expect to see more and better bionic limbs, hearts, and other organs; drugs that prevent disease rather than merely treating symptoms; and body monitors that warn of impending trouble.
- Surgeons working via the Internet will routinely operate on patients in remote areas, using robot manipulators.

- By 2006, 10 percent of prescriptions will be filled over the Internet, just as prescription drugs have been bought by mail order since the 1970s.
- “Nutraceuticals” and “foodaceuticals”—nutritional supplements and foods with drugs either added or genetically engineered into them—will be one of the hottest product areas in the health-care industry for the next 20 years.
- By 2025, the first nanotechnology-based medical therapies should reach clinical use. Microscopic machines will monitor our internal processes, remove cholesterol plaques from artery walls, and destroy cancer cells before they have a chance to form a tumor.

Implications

- Even without dramatic advances in life extension, baby boomers are likely to live much longer, and in better health, than anyone now expects.
- Five of the ten fastest-growing jobs in the next decade will be in the health-care industry, but this hiring frenzy will play itself out by 2025. Nearly all of these jobs will require at least two years of college-level training, and many will require four.

Implications for Equipment Leasing

- Companies that specialize in gene splicing, biotechnology, and bioengineering will be a major market for lessors of specialty equipment.
- Major diagnostic equipment should provide a significant market for leasing to hospitals, while lesser medical hardware could supply a niche market for small-scale leasing to HMOs, clinic operators, and hospitals in the developing countries.

20) THE INTERNET IS STILL GROWING LOGARITHMICALLY AND GLOBALLY.

- By 2003, the global population of Net users will reach at least 362 million, triple the number just four years earlier. At this rate, by 2010 some 95 percent of the people in the industrialized world and half of those in the developing world will be online.
- By 2002, the Africa ONE project will ring that continent with broadband fiber-optic lines capable of carrying 40 gigabits of data per second—enough to provide high-speed Net access for all of Africa. [Details: www.africaone.com.]
- India had 650,000 Internet subscribers in 1999. It expects to have 4 million by the end of 2001, 8 million a year later.
- Despite Beijing’s desire to control communications, Net service is expanding rapidly in China. By 2003, China could have as many as 33 million people online and 85 million by 2005—but that is still less than 7 percent of the population.
- In contrast, 60 percent of Japan’s population will be online by 2005.
- By 2010, most of the United States will be “wired” for high-speed data access. By 2015, most of the rest of the world will follow.
- Most Internet communication is commercial, business-to-business, rather than personal e-mail.
- Internet-based commerce will achieve sales of over \$1 trillion per year by 2002, in part because the Internet is the largest tax-free zone in the world.

Implications

- Estimated world savings in business expenses thanks to B2B sales and services on the Internet: \$1.3 trillion by 2002.

- Internet-based operations require more sophisticated, knowledgeable workers. Technically trained people will be in short supply for the next 15 years, as virtually every business in the world competes for their services.
- High-speed communication is allowing companies to focus on their core competencies, spinning off secondary functions and support services—such as delivery and customer support—to third parties.
- The number of Internet users connecting with Web-enabled cell phones growing rapidly, particularly after the events of September 2001, when victims of the terrorist attacks used portable phones to call loved ones and spread the word of airline hijackings.

Implications for Equipment Leasing

- Lessors of Net-related hardware will find growing demand to supply maintenance, and even personnel, with the equipment.
- National and international regulation of Internet-based communications will continue to proliferate. This could create new demand for equipment to restrict or monitor access to Net content, some of which may be leased.
- State and local governments, and perhaps even the Federal government, are likely to lease equipment for use by school systems, community centers, and the poor. European governments will be even more active in this sphere.

Trends in Labor Force and Work

21) EDUCATION AND TRAINING ARE EXPANDING THROUGHOUT SOCIETY.

- In the decade that began in 1997, some 6,000 new schools and 190,000 new teachers will be needed in the United States.
- Also needed: an annual \$10 billion increase in federal spending for programs such as Head Start, federal aid for disadvantaged children, the Job Corps, and the Job Training Partnership Act.
- The half-life of an engineer's knowledge today is only five years; in 10 years, 90 percent of what an engineer knows will be available on the computer. In electronics, fully half of what a student learns as a freshman is obsolete by his senior year.
- Eighty-five percent of the information in National Institutes of Health computers is upgraded in five years.
- Rapid changes in the job market and work-related technologies will necessitate increased training for virtually every worker.
- Automation, international competition, and other fundamental changes in the economy are destroying the few remaining well-paid jobs that do not require advanced training.
- In the next ten years, close to 10 million jobs will open up for professionals, executives, and technicians in the highly skilled service occupations. However, many of these positions may be for part-time workers.
- A substantial portion of the labor force will be in job retraining programs at any moment. Much of this will be carried out by current employers, who have come to view employee training as a good investment.

- Schools will train both children and adults around the clock. The academic day will stretch to seven hours for children; adults use much of their remaining free time to prepare for their next job.
- State, local, and private agencies will play a greater role in training by offering more internships, apprenticeships, pre-employment training, and adult education.
- We already are seeing a trend toward more adult education. One reason is the necessity to train for new careers as old ones are displaced or boomers grow bored with them. The other is the need of healthy, energetic people to keep active during retirement.
- More children and teens will be “wired,” with both positive and negative impacts. About 38.5 million American teens and children will be online in 2002, up from 17 million in 1998.

Implications

- Even small businesses must learn to see employee training as an investment, rather than an expense. Motorola estimates that it reaps \$30 in profits for each dollar it spends on training. IBM and Xerox put their profits at \$20 to \$25 per dollar of training.
- Some Internet students will know more about their favorite subjects than their teachers do, in part because they have more time to devote to keeping up with developments in the field.
- Both management and employees must get used to the idea of lifelong learning. It will become a significant part of work life at all levels.
- As the digital divide is erased and minority and low-income households buy computers and log onto the Internet, groups now disadvantaged will be increasingly able to educate and train themselves for high-tech careers.

Implications for Equipment Leasing

- NGOs, educational institutions, and government agencies all will provide a market for business equipment used in training.
- Lessors who can arrange, or even provide, training in the use of leased equipment could have a significant advantage over those who deal only in hardware.

22) SPECIALIZATION IS SPREADING THROUGHOUT INDUSTRY AND THE PROFESSIONS.

- For doctors, lawyers, engineers, and other professionals, the size of the body of knowledge required to excel in a particular area precludes excellence across all areas.
- The same principle applies to artisans. Witness the rise of post-and-beam homebuilders, old-house restorers, automobile electronics technicians, and mechanics trained to work on only one brand of car.
- The information-based organization is dependent upon its teams of task-focused specialists.
- Globalization of the economy calls for the more independent specialists. For hundreds of tasks, corporations will turn to consultants and independent contractors who specialize more and more narrowly as markets globalize and technologies differentiate.

Implications

- This trend creates endless new niche markets to be served by small businesses. It also brings more career choices, as old specialties quickly become obsolete, but new ones appear even more rapidly.

Implications for Equipment Leasing

- Niche markets for specialty lessors should proliferate as quickly as those in other industries.
- Existing lessors could benefit by creating intrapreneurial divisions to serve these niche markets.

23) SERVICES ARE THE FASTEST-GROWING SECTOR OF THE GLOBAL ECONOMY.

- Retail sales grew from \$1.5 trillion in 1993 to an estimated \$11.9 trillion in 1998, an increase of 27 percent in five years. These are U.S. figures, but the same trends are apparent in other countries
- Hospital-industry revenues are up nearly 5 percent in the same five years, to \$348.7 billion.
- Business-service sales grew by 24 percent, to \$945.1 billion, between 1993 and 1998.
- The service sector employed 70 percent of the U.S. workforce in 1990; it soon will grow to nearly 90 percent. Europe and Japan are not far behind.
- Service jobs have replaced many of the well-paid positions lost in manufacturing, transportation, and agriculture. These new jobs, often part-time, pay half the wages of manufacturing jobs. On the other hand, computer-related service jobs pay much more than the minimum, for those with sound education and training.
- Some of the fastest growth is in some of the least-skilled occupations. Between 1996 and 2006, the number of cashiers needed by U.S. industries will rise to more than 3.6 million, up 17 percent for the decade. Openings for retail salespersons will rise by 10 percent, to nearly 4.5 million. Similar trends are seen elsewhere.
- Only 1 million new jobs will appear in the less skilled and laborer categories in the next decade.

Implications

- Services are now beginning to compete globally, just as manufacturing industries have done over the last 20 years. By creating competitive pressure on wages in the industrialized lands, this trend will help to keep inflation in check.
- The growth of international business will act as a stabilizing force in world affairs, as most countries find that conflict is unacceptably hard on the bottom line.

Implications for Equipment Leasing

- Providing services, such as maintenance of leased hardware, will be one of the best opportunities to add value for customers in a field where growth has slowed.
- Though the skill sets involved in “leasing” a limited-term workforce are not entirely congruent with those of leasing hardware, the parallels and possible synergies between these two businesses are clear. Lessors may wish to develop the ability to deliver not only equipment, but trained staff to operate it. This could be done in-house or by forming alliances with experienced temporary staffing firms.

- Expanding into these areas will require careful attention to infrastructure and management issues, as is made clear by the cautionary tales in *Perfect Storms: Why Major Lessors Have Exited the Marketplace*, a recent report from the Equipment Leasing and Finance Foundation.

24) TIME IS BECOMING THE WORLD'S MOST PRECIOUS COMMODITY.

- Computers, electronic communications, the Internet, and other technologies are making national and international economies much more competitive.
- In the United States, workers spend about 10 percent more time on the job than they did a decade ago. European executives and nonunionized workers face the same trend.
- In this high-pressure environment, single workers and two-income couples are increasingly desperate for any product that offers to simplify their lives or grant them a taste of luxury--and they can afford to buy it.

Implications

- Stress-related problems with employee morale and "wellness" will continue to grow. Companies must help employees balance their time at work with their family lives and need for leisure.
- Brand names associated with efficient, reliable service are coming to seem even more desirable among baby boomers and seniors. Among younger buyers, this is no more than a foot in the door.
- As time for shopping continues to evaporate, Internet and mail-order marketers will have a growing advantage over traditional stores.

Implications for Equipment Leasing

- Combined with the general trend toward greater transparency in business operations, this raises the bar for lessors, as it does for companies in all industries. Competition on price is no longer enough; time, responsiveness, and customer convenience are the deciding factors in many leasing decisions. This pressure can only grow in the years ahead.

Management Trends

25) MORE ENTREPRENEURS START NEW BUSINESSES EVERY YEAR.

- Workers under 30 would prefer to start their own company, rather than advance through the corporate ranks. Some 10 percent are actively trying to start their own businesses, three times as many as in previous generations. Five times more would prefer the entrepreneurial life to having a key position in politics or government.
- A large majority simply distrust large institutions. Most believe that jobs cannot provide a secure economic future in a time of rapid technological change. And examples of Silicon-Valley start-ups that turned their founders into billionaires "overnight" have dramatically advanced this change of values.
- Since 1983, the number of new businesses started in the United States each year has never dipped below 600,000. In 1995, the number of new incorporations

reached a record 750,000, and there were 4.5 times as many start-ups per capita as in 1950, when the post-War economic boom was gaining momentum.

- The number of self-employed people in the United States grew by nearly 1 million in the decade ending in 1996, to just over 9 million people. By 2006, it will rise to 10.2 million, according to the Bureau of Labor Statistics. We expect there to be closer to 12 million self-employed Americans in 2006.
- More women also are starting small businesses. Many are leaving traditional jobs to go home and open businesses, even as they begin a family.
- Since the 1970s, small businesses started by entrepreneurs have accounted for nearly all of the new jobs created. For much of this period, giant corporations have actually cut employment. In 1995, small, entrepreneurial businesses produced 1 million new full-time jobs vs. barely 100,000 among larger companies.
- By 2002, 80 percent of the labor force will be working for firms employing fewer than 200 people.

Implications

- This is a self-perpetuating trend, as all those new service firms need other companies to handle chores outside their core business.
- Specialty boutiques will continue to spring up on the Internet for at least the next 20 years.

Implications for Equipment Leasing

- For major leasing firms with the capital to take advantage of it, this trend represents a major opportunity. Rather than expanding into markets or services by in-house development, well-heeled competitors can buy these niche operations and operate them as intrapreneurial departments. This may be the easiest, most productive and certain route to future growth.

26) INFORMATION-BASED ORGANIZATIONS ARE QUICKLY DISPLACING THE OLD COMMAND-AND-CONTROL MODEL OF MANAGEMENT.

- The typical large business is struggling to reshape itself. Soon, it will be composed of specialists who rely on information from colleagues, customers, and headquarters to guide their actions.
- Management styles will change as upper executives learn to consult these skilled workers on a wide variety of issues. Employees will gain new power with the authority to make decisions based on the data they develop.
- Decision processes, management structure, and modes of work are being transformed as businesses learn to use information generated by computer--data that have been analyzed, synthesized, and organized in useful ways.
- Information-based organizations require more specialists, who will be found in operations, not at corporate headquarters. R&D, manufacturing, and marketing specialists will work together as a team on all stages of product development rather than keeping each stage separate and distinct.
- Upper management will no longer give detailed orders to subordinates. Instead, it will set performance expectations for the organization, its parts, and its specialists and supply the feedback necessary to determine whether results have met expectations.

Implications

- “Downsizing” increasingly will spread from manufacturing industries to the service economy. Again, this process encourages the entrepreneurial trend, both to provide services for companies outsourcing their secondary functions and to provide jobs for displaced employees.
- Many older workers have been displaced in this process, depriving companies of their “corporate memory.” They have been replaced by younger workers, who lack experience with bad economic conditions. Many companies may find that they need to recruit some of the older workers they have lost, to help them adapt to the current disquieting environment.

Implications for Equipment Leasing

- Leasing companies that most aggressively adopt or develop information-based management systems will have strong advantages in flexibility and control over more tradition-minded competitors.
- Ease of information flow again brings greater transparency, because there are fewer credible excuses for lax performance.
- Emphasis of management changes must always be on responsiveness to customers, rather than on internal convenience, cost, or other issues.

27) A TYPICAL LARGE BUSINESS IN 2010 WILL HAVE FEWER THAN HALF THE MANAGEMENT LEVELS OF ITS COUNTERPART IN 1990, AND ABOUT ONE-THIRD THE NUMBER OF MANAGERS.

- Computers and information-management systems have stretched the manager's effective span of control from six to 21 subordinates. Information now flows from front-line workers to higher management for analysis. Thus, fewer mid-level managers are needed, flattening the “corporate pyramid.”
- Downsizing, restructuring, reorganization, outsourcing, and cutbacks of white-collar workers will continue through 2006.
- However, many companies are finding it necessary to bring back older workers, so as to preserve an effective corporate memory.
- Opportunities for advancement will be few because they will come within the narrow specialty. By 2001, only one person for every 50 will be promoted; in 1987, it was one person for every 20.
- Information-based organization will have to make a special effort to prepare professional specialists to become business executives and leaders.

Implications

- Top managers will have to be computer-literate to retain their jobs and must make sure they achieve the increased span of control that computers make possible.
- One reason there are fewer managers is that the work they oversaw is now being contracted out. This offers new markets for the firms that now handle their chores.
- Finding top managers with the broad experience needed to run a major business already has become difficult and can only grow more so as the demand for specialization grows.
- Executives increasingly will start their own companies, rather than trusting the old-fashioned corporate career path to provide advancement.

- One way to keep the best employees where promotion is not an option is to encourage *intrapreneurship* and offer profit-sharing.

Implications for Equipment Leasing

- Though personnel expenses are only a small part of the cost of doing business in the leasing industry, information-based management reduces them still farther, by reducing the number of people required to operate the business.
- However, it is essential to retain enough senior workers to maintain the corporate memory.

28) GOVERNMENT REGULATIONS WILL CONTINUE TO TAKE UP A GROWING PORTION OF THE MANAGER'S TIME AND EFFORT.

- Since the U.S. Congress passed regulatory reform laws in 1996, more than 14,000 new regulations have been enacted. At least 200 have effects sufficiently sweeping to be rated "major." Not one proposed regulation was rejected during this period. The *Federal Register*, where proposed and enacted regulations are published, was nearly 50 percent larger in 1998 than it had been ten years earlier—50,000 pages in all.
- Both the Federal Reserve Board and Comptroller of Currency are pressing banks to improve the quality and stability of their portfolios.
- This is not solely an American trend. The Brussels bureaucrats of the European Union are churning out regulations at an even faster rate, overlaying a standard regulatory structure on all the national systems of the member countries.
- The Basel Capital Accord, due to take effect in 2004, will require financial organizations to maintain higher levels of capital, depending on the risks associated with their lending. This will force them to keep closer track of their risks, according to Basel's standards.

Implications

- Regulations—though both necessary and unavoidable—amount to a kind of friction that slows both current business and future economic growth. Their proliferation in the developed world could give a competitive advantage to countries such as India and China, where regulations governing investment and capital flow are being stripped away, while health, occupational safety, and environmental codes are still rudimentary or absent. Other lands, such as Russia, will remain at a competitive disadvantage until they can pass and enforce the regulations needed to ensure a stable, fair business environment.

Implications for Equipment Leasing

- Smaller industry participants will find it slightly harder to maintain capital levels required by the new Basel standards.
- Measuring operational risk, as required by the Basel Capital Accord, will require new methods and systems, and significant management training—once relevant standards are clarified. This will necessitate adoption or modification of internal rating systems in accord with the Basel requirements.

Institutional Trends

29) MULTINATIONAL CORPORATIONS ARE UNITING THE WORLD, AND GROWING MORE EXPOSED TO ITS RISKS.

- By 2005, parts for well over 50 percent of the products built in the United States will originate in foreign countries.
- Multinational corporations that rely on indigenous workers may be hindered by the increasing number of AIDS cases in Africa and around the world. Up to 90 percent of the population in parts of sub-Saharan Africa reportedly tests positive for the HIV virus in some surveys. Thailand is equally stricken, and many other parts of Asia show signs that the AIDS epidemic is spreading among their populations.
- The continuing fragmentation of the post-Cold War world has reduced the stability of some lands where government formerly could guarantee a favorable—or at least predictable—business environment. The current unrest in Indonesia is one example.
- One risk now declining is the threat of currency fluctuations. In Europe, at least, the adoption of the euro should eventually make for a more stable economic milieu.

Implications

- It is becoming ever more difficult for business to be confident that decisions about plant location, marketing, and other critical issues will continue to appear wise even five years into the future. All long-term plans must include an even greater margin for risk-management. This will encourage even greater outsourcing, rather than investment in offshore facilities that could be endangered by sudden changes in business conditions.
- Countries that can demonstrate a significant likelihood of stability will enjoy a strong competitive advantage over neighbors that cannot. Witness the rapid growth of investment in India now that deregulation and privatization have general political support, compared with other Asian lands where conditions are less predictable.

Implications for Equipment Leasing

- The development of international standards will be a major force in the choice of equipment for lease by and to multinational corporations. Hardware meeting these standards can be leased to many markets, reducing sourcing concerns.
- Multinational lessors may wish to work with the International Standards Organization on the development of standards affecting their product lines.

30) INSTITUTIONS ARE UNDERGOING A BIMODAL DISTRIBUTION: THE BIG GET BIGGER, THE SMALL SURVIVE, AND THE MIDSIZED ARE SQUEEZED OUT.

- By 2005, twenty major auto-makers around the world will hold market shares ranging from 18.1 percent (GM) to 1.0 percent (BMW). By 2010, there will be only five giant automobile firms. Production and assembly will be centered in Korea, Italy, and Latin America.
- By 2005, just three major corporations will make up the computer hardware industry: IBM, Compaq, and Dell.

- Seven domestic airlines in the United States controlled 80 percent of the market as recently as 1999, leaving the smaller domestic carriers with only 20 percent. By 2005 there will be only three major domestic carriers.
- Between 1992 and 1997, there were nearly 3,300 mergers and acquisitions in the food industry alone, including foreign take-overs. These are U.S. data, but EU figures reflect the same trend.
- Where local regulations allow, mergers and acquisitions are an international game. Witness the takeovers of the United States MCI by WorldCom in the United Kingdom and of Chrysler by Daimler-Benz. The continuing removal of trade barriers among EU nations will keep this trend active for at least the next decade.
- Manufacturers often sell directly to the dealer, skipping the wholesaler or distributor.
- The 2000s will be our second decade of micro-segmentation as more and more highly specialized businesses and entrepreneurs search for narrower niches. These small firms will prosper, even as mid-sized, "plain vanilla" competitors die out. This trend extends to:
 - Retail. Big chain department stores and giant discounters succeed. So do small boutiques.
 - Hotels. Both large, luxurious hotel chains and economy hotels are thriving. Mid-priced family operations are being squeezed out.
 - Restaurants. Both elegant dining and cheap, fast-food restaurants are making it at the expense of sit-down family restaurants. (However, lower-end restaurants are beginning to come under pressure from competition by the elaborate take-out departments of the larger supermarkets.)
 - Hospitals. Large hospital corporations and small walk-in medical centers are flourishing. Independent hospitals and small chains are being absorbed by the large corporations. Consolidation will accelerate even further as it becomes more difficult to squeeze new savings from the delivery of care and providers must invest in costly new data systems for administration, finance, and customer service.
 - Agriculture. The farmer making over \$500,000 is flourishing; the farmer who makes under \$100,000 is surviving on nonfarm income; the middle-income farmer is going bankrupt.
 - Banks. Interstate and international banks are growing rapidly; at the other end of the spectrum, local banks that emphasize service are succeeding.
 - Financial institutions. Small, local brokers are prospering, while independents merge to survive.
- This trend leads us to believe that AT&T may be reconsolidated by 2010.
- "Boutique" businesses that provide entertainment, financial planning, and preventive medical care for past-their-prime baby boomers will be among the fastest-growing segments of the U.S. economy.

Implications

- Thus far, industries dominated by small, regional, often family-owned businesses have been relatively exempt from the consolidation now transforming many other businesses. Takeovers are likely even in these industries in the next decade.

- This consolidation will extend even to Internet-based businesses, where well-financed companies will try to absorb or out-compete tiny online start-ups, much as they have done in the brick-and-mortar world.
- No company is too large to be a take-over target if it dominates a profitable market or has other features attractive to profit-hungry investors.

Implications for Equipment Leasing

- The current economic downturn will add to the pressure forcing consolidation of the leasing industry, as weak participants drop out of the field.
- Strong participants can expand by buying the portfolios of weaker firms.
- This consolidation offers at least some hope of acquiring experienced personnel from companies leaving the industry.