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## Request for Proposal 2023

### ***Is Equipment Finance Becoming a Commodity?***

#### **Problem Statement:**

According to Harvard Business School professor Michael Porter in his seminal book “Competitive Strategy,” there are just three general business strategies: Low-Cost Leadership, Segment Focus, and Product/Offering Differentiation. In the world of equipment finance, lenders often try to strike a balance between being unique and being able to efficiently leverage the tools and processes that their competitors are also using.

Anecdotal evidence suggests the equipment leasing industry has now become an equipment debt industry. Financial returns are under stress as more equipment financing is structured as a loan/debt. The move from true leases has accelerated over the last 15 years resulting in commoditization of product offerings and lower financial returns for member companies. This trend will continue unless the industry can embrace digital technologies/efficiencies to lower costs, evolve their segment focus to align with changes in client consumption/use of assets, and re-discover the “secret sauce” of lease structuring to differentiate lease financing and provide greater value to clients while offering greater returns for Lessors.

**Purpose of Study:** The purpose of the study is to help C level officers create strategies and tactics such that their business does not become a commodity with diminishing financial returns. The study should validate whether the industry has become increasingly commoditized and determine strategies to differentiate and add value.

Years ago, one extremely successful CEO of a publicly-traded finance company would tell everyone that his primary strategy was to avoid “commoditization” even though that meant highly manual processes (their “secret sauce”). Others clearly focus on cost reduction. This study should also validate the reasons for a shift away from True leases, confirm there is still a value proposition for true leases and discuss ways that Lessors can deliver a true lease that meets the required customer experience and what the lessor needs to do internally to drive success.

What are the opportunities and pitfalls of various strategic options, given the institutions size, type, and history, and the how these may change in the future. And while there should be a framework for thinking about the costs and benefits of standardization vs. commoditization with a lending institution generally, specific dimensions should be addressed.

- “Product” is the largest and most important area where lenders must make a commoditization/not decision, and this section will probably be half of the overall study. Willingness to take residual risk is the primary differentiator here, but accepting tenor

risk, structure risk, etc. have been ways that some lenders have differentiated themselves (more on this section later).

- “Industry/Equipment” is another area where a lender/lessor may choose to focus narrowly and provide a unique benefit to borrowers, or to be a more general lender.
- “Process/Expertise/Automation” is an area where lenders can take different paths; automation is very cost effective, especial for high volume institutions, but high touch, with significant personnel expertise, perhaps basing credit/risk decisions on niche-specific data, and/or vetting and managing borrowers in unusual ways. Conversely extreme automation, interconnectivity, reporting, convenience, and overall customer experience can be a way for a lender to differentiate themselves too.

The three categories above are not meant to limit the researcher in the areas where a lender/lessor may want to accept commoditization as the cost of efficiency or differentiate their business.

As noted above, the largest part of the study will be on debt versus lease, and that section should cover:

- Data supporting the premise that the industry has become commoditized over the past 10 to 20 years
- How the Equipment Finance industry has become a debt provider versus a true lease provider over the past 20 years across the following segments - Direct, Vendor, across ticket size (Small, Middle Market, Large)
- Identify reasons for reduced volume of true leases (SEFA data for the period of 2017-2021 indicates leases vs loans declined from 31.9% to 23.0%): Changes to the tax code, accounting modifications, Values of hard asset vs software (technology) client consumption preference (aaS) etc....
- What asset classes lend themselves today to true leases and how to increase true lease origination?
- Provide ideas on how Equipment Finance can differentiate product offerings from being viewed as a finance commodity, - value added services, servicing, program partnerships with vendors, etc.
- Using analytics to better predict asset usage and subsequent residual realization.
- Highlight market segments and/or products which allow for the greatest financial return.

### **Suggested Researcher Resources**

The Foundation and its sister organization, the Equipment Leasing and Finance Association (ELFA), provide a variety of resources that are relevant to this study, including:

- The Equipment Leasing & Finance Industry Horizon Report
- The Archives of Annual State of the Equipment Finance Industry Reports (SEFI)
- Monthly Leasing and Finance Index (MLFI-25)

- MLFI-25 & Beige Book Quarterly Review

Additionally, the Foundation has two major databases accessible to researchers:

- Equifax database of select equipment leasing transaction information from a statistically valid sample of equipment leasing companies.
- Industry analysis database used to prepare the two annual ELFA overview publications noted above (SEFA).

The Foundation website ([www.leasefoundation.org](http://www.leasefoundation.org)) provides additional information on resources available to its researchers.

### **Required Deliverables**

It is the expectation of the Foundation that the final study will be delivered in no more than five months from the contract date.

Specifics include:

1. All deliverables should be written for the lay reader and should be well-written
2. Monthly progress reports should be submitted via email to the Foundation's Executive Director.
3. The final Research Study Paper should be provided in Microsoft Word and PDF versions. Charts and graphs should be provided in Excel or PowerPoint and should include source data. Study page count is variable: 30-60 pages. See our Report Guidelines for more details.
4. An article of approximately 2,000 words must be submitted for publication in the peer reviewed Journal of Equipment Lease Financing. Please review our Author Guidelines specific to the JELF.
5. An abstract of approximately 250 words of project results must be submitted along with the first draft of the project. The abstract will be used to report the study to a general audience. The abstract must be written for the lay reader.
6. Upon request by the Foundation, you shall be available to present findings live and/or via web seminar or podcast.

### **Response Details**

Submit your proposal to Kelli Nienaber, Executive Director of the Foundation, at [knienaber@leasefoundation.org](mailto:knienaber@leasefoundation.org).

Information Required:

1. Researcher (or Firm's) history and background
2. Experience/knowledge with lease finance and clean energy research
3. Experience with nonprofit associations
4. Overview of the study design
5. Credentials and qualifications of staff to be assigned the project
6. References/client list, with written permission to contact
7. Description of similar studies performed by the researcher
8. If appropriate, description of how staff time and other costs are billed

## Timeline and Contract Terms

- Proposals are due by the first of the month – contact the Foundation for specific dates.
- Proposal selection generally occurs within 30 days. The review committee meets on the third Wednesday of each month.
- For further information regarding contract terms, see our Research Grant Guidelines.

## Selection Criteria

The Equipment Leasing & Finance Foundation is an equal opportunity employer and submissions are considered without regard to the age, religion, ethnicity, gender, sexual orientation, marital or veteran status, political affiliation—or any other classification protected by law—of the author. The Foundation encourages the diversity of perspectives and experiences that result in a holistic view of the ever-evolving challenges and opportunities that face the equipment finance industry. As such, all interested researchers are welcomed and encouraged to submit their proposal for consideration.

**The proposal should be based on original research about a future-focused topic benefitting a major segment of the equipment finance industry and include a detailed methodology for the proposed research project.**

1. Experience in similar assignments
2. Resources/capacity to perform the required work
3. Experience with associations
4. Qualifications of the individuals who will perform the work
5. Knowledge of the equipment finance industry
6. Quality of the proposed study design
7. Price
8. References
9. Intangibles

For additional information on the grant process visit: [www.leasefoundation.org/grants](http://www.leasefoundation.org/grants)