CHAPTER V
PROBLEMS OF LESSORS

The clarity of guidelines issued by the regulatory bodies is very important for any industry’s success. Leasing industry is one that is struggling in an ambiguous environment. Many acts are regulating leasing industry. Many times the interpretation of the laws is at the discretion of the concerned authority, not on the written guidelines.

NPAs are problem not only for Financial Institutions and Banks but also for leasing companies. The impact is more on a leasing firms compared to other financial institutions as being a small player. The pressure on distribution/allocation of funds (due to piled up deposits) leads to selection of a wrong customer.

In a highly cost competitive environment, procurement of funds at lower cost is the biggest challenge for leasing companies.

Whether liberalization has brought the desired benefits or not, it surely has brought volatility in all the markets irrespective of industry. Leasing companies are facing many challenges due to market volatility.

Even in the era of IT, there is no sharing of information among the banks/leasing firms by which a defaulter with one can get a loan/lease from another easily. Evolution of creditworthiness of the customer is the biggest challenge for NBFCs/leasing companies. A right customer is going to contribute towards the growth of the business and vice versa.

The major problems faced by the leasing industry are getting a right customer, customer information sharing, unstable regulations, non availability of secondary market for the recovered assets, high administrative expenses, non availability of quality and responsible persons. There is no separate act for leasing by which leasing is forced to under go so many regulations. The detailed discussion on the above problems is as follows.

1. SALES TAX:

The Constitution (46th amendment) has expanded the scope of levy of sales tax by State government. The definition of the word ‘sale’ under Article 366(299A) of the Constitution includes ‘transfer of right to use’ among
other things. Almost all the State Governments now provide for levy of tax (lease tax) on transfer of the right to use the goods either by providing for separate provisions in their local sales tax laws or by enacting separate legislation. Transfer of the right to use is generally deemed to have taken place in a particular State if the goods are for use within that State, irrespective of the place where such contract was entered into.

Even though the goods have been brought to the State from a place outside the State consequent to the lease contract, if the goods are for use within the State, lease tax is leviable. Thus, the regularly-revenue aided approach of the States in tax levying, use the sales tax makes a lease transaction wholly unviable (This may motivate the leasing companies to under price the assets). It goes as under: since sales tax on a lease pushes up the cost of the lease by some 2-4% points (say, a cost 20% IRR becomes 24% IRR) it becomes impossible to market a genuine lease to a discerning client with good number of other funding options.

2. ASSET LIABILITY MISMATCH:

Most of the NBFCs in India had relied extensively on public deposits. Most of these deposits were annual period deposits while deployment of funds was mostly for long tenure. A leasing company has to pay back both the principle and interest within one year and it receives the lease rentals monthly or quarterly. The cash out flows are big in quantity and to be paid annually and inflows are small in quantity distributed for a longer period of time. The nature of the business is such that right from its inception, there is a mismatch of assets and liabilities. The stringent norms for acceptance of deposits laid down by RBI puts the pressure on the amount of deposits accepted by many NBFCs and many NBFCs are not able to meet the credit rating requirements and they are forced to repay the deposits immediately. Thus the sudden brakes put by the RBI have worsened the mismatch.
3. POOR SELECTION OF THE CUSTOMER:

Most of the lessors have learnt a very hard way to distinguish between a good credit prospect and a bad credit prospect. Many wrong decisions were based on purely financial view, with asset quality taking a back seat. There is always a possibility of a good customer rated as bad (type I error) and a bad customer rated as good (type II error).

When the competition is high and when they accepted more deposits, lessors were under pressure to disburse the funds without giving much importance to the quality of the customers. The concept of 20/80 law or Pareto analysis holds good here. 20% of the bad customers are sufficient to eat into the profits created by the 80% of the good customers.

4. LEASING WITH A WRONG MOTIVE (TAX BASED):

In India, only on few items 100% depreciation is available in the first year itself viz., like energy saving devices, pollution control devices etc. Some entrepreneurs are wise enough to make use of loopholes in the laws by showing the domestic electric meters as energy saving devices and captive water softeners in a hotel as water pollution control devices. As leasing companies were trying to exploit these entries, a series of fraudsters were successful in exploiting, to the hilt, to manage its taxes and thus, false papers for non-existing wind mills and never existing bio-gas plants were fabricated to lure leasing companies to loose the whole of their money, to save the part that would have gone to government as taxes.

5. Restriction on acceptance of public deposits and linking credit rating as the criteria for ceiling on deposits:

The quantum of public deposits that could be accepted by an NBFC, is restricted, not based on the RBI's own arrangement but based on credit rating assigned by an outside agency. The credit rating is always one of the most important factors for an investor to take into account before investing in an
NBFC, as a reference to the creditworthiness of the company. The rating agencies do not understand the intricacies of leasing business and their systems are neither transparent nor uniform. It is also true that it is too costly for medium and small companies to afford a rating. More than 95% of the small and medium sized NBFCs, which were never able to get the desired rating in their lifetime, have closed. And many companies that are forced to repay the deposits before the maturity face acute liquidity crunch. As there exist asset liability mismatch in this industry, these companies were forced to close down (even though they were running successfully till then).

6. INTEREST RATE CEILING:

There is a ceiling on maximum deposit rate (11% as on 4th March, 2003) that can be offered by NBFCs. In some cases, NBFCs are not in a position to attract funds even though they had fruitful opportunities. (Of course companies had to pay the principal and interest on the borrowed funds).

7. RECOVERY OF DUES:

Recovery of dues is as much problem for NBFCs as for the financial institutions. Many regulations were made for collection of dues for the banks and financial institutions rather than the small NBFCs. Civil proceedings take several years. The delays in court proceedings encourage the borrowers to default. This is the one of the major problems expressed by the lessors during the survey.

8. HIGH COST OF CAPITAL:

In order to have demand, leasing has to compete on cost with other modes of financing. But the cost difference is created by incremental taxes and duties, imposed by State and Central Government like sales tax, lease tax, MAT, service tax etc., (stamp duty on lease agreement in some States). This incremental levy spoils the very economics of a lease by adding to the cost of lease finance by some 4% to 8%.
9. LIQUIDITY POSITION IN THE ECONOMY:
High liquidity in the economy, forces the banks to lend the funds on competitive basis, by which many corporates (with good track records) are able to borrow funds at lower rates of interest. Hence the demand for leasing has come down. The remaining demand (from the corporates, without good track record) is adding fuel to the fire of lessors’ problems. Most users used to view a lease as a faster and more efficient alternative to bank loans or institutional borrowings. But now banks disburse the loans (schemes like loans within 24 hours, loans at your door step) at a faster rate than a leasing company. As the transaction costs are also to be borne by the lessee, it becomes unviable to the customer, thereby closing one option open to them.

10. REGULATING MACHINERY:
There is no specific act or legislation governing leasing in India. All legislations/acts referring to assets and management of assets encompass leased assets, either in terms of assets held by the lessor or joined with assets for which payment in full has not been received. Some of the acts include
Companies Act, 1956
Foreign Exchange Regulation Act, now FEMA
Indian contract Act, 1872.
Indian Stamp Act, 1899.
Registration Act, 1908.
Reserve Bank of India Act, 1934.
11. NPAs

NPAs problem is not only restricted to Banks, financial institutions but also to NBFCs and particularly to leasing companies. A lease contract generally will be for 3-5 years. Five years span is too long for any business to change its position in the business cycle i.e. a profit making company may become loss making one because of business cycle. And for a leasing company, if 10% customers become defaulters, that is enough to hit the future of the company.

12. MARKET VOLATILITY:

With LPG (Liberalization, Privatization, Globalization) volatility in the markets become a common phenomenon. By which at the time of lease initiation (may be first one year) a good and sound customer may become a loss making company by the third or fourth year, due to which the regular payments of lease rentals are at risk.

13. UNSTABLE REGULATIONS:

As stated above too many Acts try to control the leasing business due to which it has become a mockery. Many items like depreciation, income tax, lease tax, sales tax, MAT are not clear to the Government itself. The officers in charge interpret the laws according to their choice, which create many more problems for the lessors.

14. NO SHARING OF INFORMATION AMONG THE LESSORS:

A defaulter with one leasing company can easily make a new lease agreement with a new lessor. This has been happening because there is no sharing of information among the leasing companies. This holds good for the
Banks and FIs also. (Two banks may be within a distance of half a kilometer, but still a defaulter in one can get a loan in another bank very easily).

15. NO ACCOUNTABILITY & RESPONSIBILITY AMONG THE MANAGERS:

This holds good particularly for public sector banks and associated leasing companies. Many managers have an attitude of, 'I will disburse the loans, someone else will come and collect it back'.

16. HIGH ADMINISTRATIVE EXPENSES:

When the leasing industry was doing well many companies increased their staff. But, when leasing business is facing a tough time, this huge manpower in an organization could not be reduced and thus became liability. There is one exception to it i.e. First Leasing Company India Limited, which has only four employees in Bangalore office even though its turnover in leasing, is in crores of rupees.

17. NO SECONDARY MARKET FOR RECOVERED ASSETS:

The biggest question for the lessors is what to do if the lessee does not pay the lease rentals regularly for a long period of time. This situation is a common phenomenon among many lessors. If they use the right to repossess the asset, they should find a customer who is doing similar business and who is in need of similar/same asset. Which is practically not feasible. Then the second option for the lessor is to sell the asset, which is repossessed. And in India the secondary market for machines is not developed therefore the asset will be normally sold at very low prices which involve huge losses for the lessor.

Liquidity in the economy is become a big challenging task to the lessors. Recovery of dues, selection of right customers, market volatilities are the biggest challenges for the leasing Industry. Some of the problems are within the control of the company like selection of right man for the right job, slection of right customer, sharing the information etc.
PROBLEMS OF THE LESSEES

Every company has only one business risk. However, a lessee has to bear the business risk of lessee as well as the lessor, because any fluctuations in any rule related to lease, which affects the lessor, simply gets passed on to the lessee.

In the era of ‘buyers market’, lessees are still operating in the ‘sellers market’. Lessee has to agree all the rules and regulations of the lessors and other regulatory bodies. Lessee pays more than the actual cost of the asset without having the clause of ownership rights. And it is no more than off balance sheet financing. Customization of the lease is the spirit at the time of lease contract and not during the lease period. All ambiguous rules are interpreted in favour of the lessor only. Any legal battle is in favour of the lessor only due to his financial power and expertise.

The rules and regulations about the leasing are not clearly defined in Sales Tax Act, Income Tax Act, and according to new accounting standards only the interest part is in the installment is tax deductible. The benefit of depreciating may not favourable much to the lessor.

Many times the lessor will ask for so many guarantees for the leased asset. High cost, abnormal penal charges, legal ambiguities, non-availability of C forms and changes in the accounting guidelines are some of the important problems faced by the lessees. After having all these problems lessee has to survive in the business. And lessor always considers the lessees as their cash cows.

Many advantages of the leasing are in favour of lessee only on paper. For example it is not flexible one because many lessors are reluctant to customize the lease agreement. When it comes to practice all the disadvantages of leasing are applicable to the lessees only. High cost of capital, no ownership rights are
some to name a few. In the following paragraphs each problem is discussed in detail.

**DISADVANTAGES OF PARTIAL FUNDING:**

Many lessors believe that leasing funds only the pure equipment cost of the asset. But in addition to the cost of asset there will be civil cost related to the installation of the assets, installation and erection costs, design and engineering costs. Most of the lessors are reluctant to fund these costs. Moreover, other lenders will not fund such non-equipment costs as it represents intangible assets. If the lessee meets the cost himself, the oft-reiterated merit of leasing 100 per cent financing is proved to be untrue.

**LOSS OF OWNERSHIP RIGHTS:**

In leasing, the lessee is perturbed more at the loss of other ownership rights than the loss of depreciation right. In the beginning the lessee is not certain as to what will happen to the asset at the end of the lease period. Although normally, the lessee can be assured of right of continued use of the asset (as the lease agreements usually give the lessee the right to renew the lease at nominal rentals) other benefits of ownership, like right to sell the asset or right to share in sale proceeds of the assets in the case of resale, right to share in insurance proceeds in case of damage, right for revaluation etc., are not with the lessee and not defined clearly in the beginning. In fact, the lessee is not given freedom for even minor rights like right to shift the leased assets to another location of the lessee, right to sub-lease etc.

**RENTAL VARIATION RISK:**

In traditional loans, the cost of loans to the borrower goes up with increase in interest rates. However, in a lease, the cost of the lease, represented through rentals, may go up by adverse change in any of the factors underlying the rate of rental viz. prime lending rate, corporate tax rate, timing of advance tax payments, rate of depreciation etc. As the number of factors influencing the return to the lessor in a lease grow, the risk of variation of lease rentals
increases. Thus, exposure to such a high risk, especially while sacrificing the ownership, is something the corporates find it hard to stomach.

ILLUSION OF LESSER COST:
It is observed that the cost of lease, at about 11-13 per cent for 100 per cent depreciation items and 17-19 per cent for 25 per cent depreciation items, compares well with cost of alternative debt including cost of margin requirements if any. However, while calculating, most of the lessors ignore additional costs like cost of sales tax, surcharge etc., on rentals to be borne by the lessees. Besides, these calculations ignore the depreciation opportunity foregone by the lessees. Even if a lessee in the middle of a lease acquires taxable capacity, the discounted value of depreciation foregone should be factored into the cost of lease to the lessee.

TAXABLE CAPACITY RISK:
A lease is said to be specially advantageous where the lessee’s effective tax rate is lower than that of the lessor so that the tax advantage that can be claimed by the lessor is more than that of the lessee and by the fact of lessor’s attempt to share the benefit, and thus the rentals are reduced thereby decreasing the cost of the lease to the lessor. However, when a lessee not having adequate taxable capacity in the beginning gets taxable capacity during the period of lease the lease may imply opportunity foregone.

LEGAL AMBIGUITIES:
There are matters relating to leasing that are not clearly defined in Sales tax Act, Income tax Act as that of other policies like Exim policy. Tax on lease rentals in the case of inter state purchases, place of payment of sales tax, in respect of movables like wagons and ships, and time when asset could be capitalized for claiming, IT depreciation, treatment of sale and lease backs under special import schemes are some pointes which are worth noting. Different consultants offer different views which results in lessees
not going in for leasing in order to avoid unknown risk that may arise at a later date due to different interpretations by statutory authorities. Even those corporates who are prepared to take the risk, the lessors may prefer to take safe interpretation of law in which case the cost and inconvenience to the lessee will increase.

**OPERATIONAL INCONVENIENCES:**

When the asset has to be moved from one State to another this problem arises. While a seller can easily issue C-form in case of inter state purchase, it may not be possible in a few states to get C-form issued easily in case of a lease. Similarly lessors' disbursement procedures may cause operational hardship to a lessee. If the lessors insist on guarantees and warranties issued by the supplier to be modified in their favour, then lessee may be in trouble as suppliers may not agree for the same or it may not be in the interest of the lessee. Similarly, if the lessor insists that all the commercial documents other than invoice, like railway receipts, excise challan, lorry receipts etc., to be drawn in the name of the lessor, then it may not be practically possible.

Even if theoreticians suggest that the documents to title should be first sent to the lessor who should endorse and send them to the lessee for release of goods, the same may not be a feasible method when put into practice.

Similarly, after entering into a lease with the lessor, any discussions with supplier on technical specifications, modifications, terms of dispatch cannot be made without the consent of lessors while authorization in favour of lessee to negotiate for technical specifications, terms of dispatch may not be preferred by some lessors due to fear of risk.
Business fluctuations:
No business is exempted from the business cycle. And lessee’s business is no exemption for that. If an asset is taken for 5 year lease period and lessee pays the lease rentals for four years and does not pay regularly ease rentals in 5th year the lessor can take the asset back which will affect the business of the lessee, because of which he will never come to the business again. Many lessees are small players who are not in a position to do the business with so many risks.

High Penal Charges:
If the lease rentals are delayed due to genuine reasons, the lessor will not think from lessee’s point of view, and start levying penal charges. The penal charges may be a small amount to the lessors but very big amount for the lessees.

And when interest rate and other such items goes up which favour the lessor, he will show a lot of interest in rewriting the lease rentals and the same is not true when it declines.

Change in the guidelines:
With new accounting standards AS 19 implementation, the benefit of off balance financing has gone. Now lessees have to show the asset in their financial statements. (Of course they claim the benefit of depreciation in their accounts only for accounting purpose and not for income tax purpose).

Change in behaviour of lessor:
The lessor will not show the same interest in the business of lessee, which he had shown while making a lease agreement. Many lessors think that the lessees are their cash cows.

Many times the different costs, which are not clearly specified in the lease agreement, have to be foregone by the lessee only.
If due to any reasons if both the parties have to go to the court of law, always the lessor is in a better position due to his financial position and expertise. Where as being a small player a lessee cannot spend much time and money on legal activities.

MISCELLANEOUS RISKS:

If the asset is damaged and insurance proceeds are either not available or insufficient to fully cover the loss, then it becomes lessee’s responsibility to meet the shortfall. Besides, if any dispute exists or arises between the lessor and the supplier, lessee may suffer on account of the supplier neglecting the supply to the lessor. Although it is said that leasing can provide a very flexible structure, in practice many of the lessors are hesitant for structures such as rentals with moratorium, sharply back ended, etc. Besides, in the case of assets where the value is found to deteriorate fast either due to obsolescence or other reasons, the lessee cannot take prompt decisions to sell it to arrest further loss on equipment if the lessor delays to give his consent.

References:
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CREATING A COMPETITIVE ADVANTAGE FOR LEASING COMPANIES

Leasing amounts to about 8 per cent of the total world capital investment, and it is 15 per cent in United States, 14 per cent in U.K., 28 per cent in Australia and around 3 to 8 per cent in European countries. In India it is estimated to be less than 4 per cent of capital investment. In 1980s leasing in India flourished so much that on an average two leasing companies were formed every week. The spiral growth continued upto 1986 after which the leasing companies faced a lot of difficulties due to various reasons.

Despite the slump in leasing business a few of the leasing companies have survived and grown because of their proactiveness in doing the business. Many other leasing companies have failed in their strategic approach and in marketing of lease contract. Management proactiveness will put the Indian leasing business at least at par with the world leasing business.

The superior performers (who survived and have grown in the industry) appear to possess some special set of skills, which are different and difficult for others to imitate, and which help them to outperform other players in the industry. These unique skills and resources are referred to as the sources of competitive advantage in strategy literature.

Sustainability of competitive advantage is achieved when such advantage resists erosion by competitor behaviour. The following are the essential requirements for a resource or skill or set of skills to be classified as a source of sustainable competitive advantage.

- It must be valuable: It must help a firm in formulating and implementing strategies to improve its effectiveness and/or efficiency.
- It must be rare: the set of skills and resources if possessed by other competitors, they cannot be a source of sustainable competitive advantage.
- It must be imperfectly imitable; Competitors who do not possess such a set of skills or resources should not be able to obtain them.
- No substitutes: there are no close substitutes for the skills or resources.
- Value for customer: Possessing a distinct set of skills resources do not automatically translate itself into a sustainable competitive advantage, unless it gives some value to the customer in terms of product/delivery attributes which are among the key buying criteria of the customer.

**SOURCES OF COMPETITIVE ADVANTAGE:**

There are basically two sources of Competitive Advantage -- Unique resources and distinctive capabilities. Unique resources are tangible assets at the command of the company, which are not available to other competitors. This cannot be practiced by leasing companies because these services are intangible.

Distinctive capabilities or core competencies are skills of the firm. These two broad sets of sources enable a firm to manage its value chain, to achieve a low cost strategy or a differentiation strategy.

The following are some of special features of leasing.

- Leasing is a customer oriented financial service
- Leasing provides only equipment based financial service.
- Unlike the financial instruments and schemes leasing allows a lessee only the use of lease asset.
- Leasing is governed through contract. The flexibility in leasing should be shaped up into an advantage to score higher points over competing instruments.
The onus of building image lies on lessor in case of leasing business. It is just contrary in case of other sources of financing. This should be viewed as a positive sign rather than a negative one.

The strategy for a service is distinct from that of tangible goods because of a few specific characteristics of services. Lease asset may be tangible, but what makes it into a lease contract is not. Lessee is getting the financial package. Therefore, the place, the people, the equipment, the communication material, the symbol and the price should reflect the quality of services and concern to the needs of lessee.

The element of service in lease contract should be emphasized more leaving the choice of equipment for the lessee, though the two are not separable in lease contract. Leased asset should be viewed as the medium through which financial service is offered. The element of variability in lease service is a strong point over the other competing instruments of financing. A lessor fully utilizing variability characteristics can get the best offered by the environment.
I. ANALYSING MARKET OPPORTUNITIES AND THREATS:

To analyse the market opportunities and threats the right technique is making use of Porter's Five Forces Model.

RISK OF ENTRY BY POTENTIAL COMPETITORS:

A high risk of entry by potential competitors represents a threat and a low risk of entry by potential competitors represents an opportunity.

In India, (as already mentioned above) the share of leasing in capital formation is less than 4 per cent. There is no perfect match between the industrial growth and infrastructure growth. Infrastructural growth which is a must for industrial growth is much lower. Thus, in India there are many opportunities in both infrastructure and industry, like earth moving equipment like cranes, bulldozers, road rollers and generation real estates, tourism industry etc.
Costs of raising capital from capital market and other markets are still high in India. Thus for many companies leasing is still a better option. And for those companies, which do not want to dilute their ownership, leasing is a better option. Leasing companies have a lot of opportunities.

Leasing companies shall concentrate on those industries where life cycle is shorter or risk of obsolesce is high like computers, high technological instruments.

Total investment in R&D is very low in India, if leasing companies could come together and develop R & D centre in an industrial areas so that they can offer laboratory services to the industry.

The manufacturer would surely like to have a tie up arrangement with leasing or other financial firms for the financing package of the sale. Leasing can have a tie up with the OEMs for mutual benefits. With proactiveness of leasing companies can create opportunities in leasing of furnished residences and office premises. Lease of consumer durables and lease of high tech equipments, etc. are the field worth exploring.

2. THREAT OF SUBSTITUTE PRODUCTS:

The existence of close substitutes presents a strong competitive threat, limiting the price a company can charge and its profitability. However, if a company's products have few close substitutes, then, other things being equal, the company has an opportunity to raise prices and earn additional profits. Leasing companies have a threat from the manufacturers of many assets and equipments especially computers, photo stat copying machines and other office automation equipment. A cutthroat competition in the marketing of these equipments has compelled them to go into the lease-supported sales packages
This is mainly because of failure of leasing companies in responding to the environmental situation like this.

The stiff competition among financial firms forced them to compete on interest rates and customization and speed of disbursal of loans. Loans within twenty-four hours, loans at your delivery, lowest rate of interest are some, to name a few. This offers, which make them more attractive compared to leasing.

3. BARGAINING POWER OF BUYERS:

Buyers can be viewed as a competitive threat when they force down prices or when they demand higher quality and better service which increases operating costs. Alternatively, weak buyers give a company the opportunity to raise prices and earn greater returns. Whether buyers are able to make demands on a company depend on their power relative to that of the company. The bargaining power of the lessees is high, as leasing companies are not doing well. And now lessees demand more customization with little risks and also with best economical packages, thus creating more threats.

4. BARGAINING POWER OF SUPPLIERS:

Suppliers can be viewed as a threat when they are able to force up the price that a company must pay for input or reduce the quality of goods supplied. Alternatively, weak suppliers give a company the opportunity to force down the prices and demand higher quality.

For leasing companies the suppliers are suppliers of capital. Depositors are one among them. There is a ceiling on maximum deposit rate, a NBFC can offer 11% (as on May, 2003, RBI circular). However the banks do not give any preference to the leasing companies in lending funds. The closure of some of the co-operative banks further brought down the depositors' confidence
to the bottom level. From the above one can say that the bargaining power by supplier is more, thus posing a threat.

5. RIVALRY AMONG THE EXISTING FIRMS:

If this competitive force is weak companies have an opportunity to raise prices and earn greater profits. If the rivalry among established companies is strong, then it is a threat.

Leasing companies not only compete among themselves, but also compete with banks, FIs, etc. The competitive force is strong among the competitors, which is a threat.

II. ANALYSING INTERNAL STRENGTHS AND WEAKNESS:

A strength is a strong point for the company i.e., something a company is good at doing or a characteristic that gives it an important capability.

A weakness is something the company does not have or does poorly (in comparison to competitors or standards) or a condition that puts it at a disadvantageous position.

The awareness of leasing is one of the important options of financing, is found more in literature and conference halls than among industries. Leasing is not enjoying a status of industry and hence has got no inherent strengths as compared to other sources of funds. A leasing firm must build up strengths in some of its fields. The important area of strength is funds management at minimum cost of capital. Financial acumen and faster turnover is the greatest asset of any leasing firm. This strength can be built up, if the leasing firm is not carried away by the inner desire of reporting quicker profit through resorting to the depreciation policy and other such tactics.
A tie up with a manufacturer or third party financier or specialty leasing can help a firm in building up these strengths. Retained customers both internal and external are strengths.

Having an effective and efficient credit evaluation of creditworthiness of the lessees can be a strength i.e. selecting the right customer for the lease. Thus a quality customer would be strength (as there are regular payment of lease rentals). Knowledge about the industries and their growth can be strength, as one knows where more opportunities are lying.

As all financial instruments are only fair weather friends, leasing can succeed only if it becomes all weather friends. Since the ownership of assets remains with the lessor through execution of proper contract he can take a little more risk.

The service element in this equipment-based service should be made visible to prospective clients. Communication with the clients should aim at creating a we-care-for-you image. It is not the price of lease, which is everything in leasing business, but the relationship that counts in doing the business.

The main weakness of leasing industry, is controlled by too many acts as there is no a separate leasing act. And the rules of the game change from one state to another state. And many a times some benefits and levy of taxes are at the discretion of (the respective) authorities.

III. SELECTING TARGET MARKET:

“MARKETING IS SUPPLYING RIGHT PRODUCT TO THE RIGHT CUSTOMER, AT RIGHT TIME, AT A RIGHT PRICE AND AT RIGHT PLACE FOR EXCHANGE”
Choice of market segment has mainly three dimensions, which include choice of lease assets, choice of industry and choice of client in an industry.

The industry which is ailing and the industry in which fund raising is a difficult task in the field, is the place where lease contract can be sold. Also the industries with rapid technological advancement and high capital intensity are likely to look at lease option more favorably. Leasing is a favourable option for laboratories, real estates, earth moving equipment, and computers, high cost medical equipment, which is to be shared, by many medical practitioners and hotel industries.

Lease asset can be determined based on its characteristics and common need and perception of perspective clients regarding such assets. For example, obsolescence is one of the very few important factors making the users think in favour of leasing so that the costs of obsolescence are not borne by them. Computers and other office automation equipments that are subject to fast obsolescence could be the right type of assets to lease. Such assets on expiry of lease contract may be further leased to other clients who are lagging behind in computerization process. What is absolute for one may not be so for others. A leasing firm that can identify the subsequent user segment can maximize its profit even after passing on a part of benefits to the lessee making the lease less costly for them. In the long run a leasing company must identify it with some types of assets or with manufacturer of some types of assets. With the change in trends, which are inevitable due to product life cycle, the gradual shift in identity in allied and new products could bring consistently good results.

Identification of prospective client: The following clientele profile will be a best match for the lessors.

1. Small and medium size firms who cannot easily enter the capital market.
2. Companies who are on the threshold of losing small-scale unit status.
3. Companies with very ambitious growth plan
4. Companies who are in the state where tax structure is prohibitive
5. Companies who have acquired new businesses especially with the large borrowings.
6. Companies with poor credit rating
7. Companies with very low profitability.
8. Companies with excessive investment in working capital
9. Companies facing continuous cash crunch.
10. Sick companies or companies with incipient sickness.

**Choice of client:**

This is the crucial area for future growth and success. Companies have to do a lot of home work about the clients before making a lease contract as they are going to partner with them. Unluckily this is the weakest area in India. A defaulter with one leasing company can come to an agreement with another lessor, because there is no sharing of information among the leasing companies.

Analysis of financial statement can throw light on the scope of getting leasing business from a particular company. This is also not without a drawback. Because financial statements are also customized at present. For example, you will get a balance sheet according to your requirements.

Once a company is in the fold of leasing firm, making it into a big leasing account can become easier through CRM. Account service and accounts development then should assume greater importance.

**IV. DESIGNING MARKETING STRATEGIES:**

The Critical Success Factors for leasing business are

- The cost of capital employed
- Background checks on creditworthiness of clients
- The quality of system used to monitor accounts.
Financial Institutions and commercial banks have access to low cost funds. They also have an established clientele and they can easily access the repaying capacity of companies very well and monitor performance through already established monitoring systems. Further FIs and commercial bank services have a higher priority in the event of default or bankruptcy. Thus, recovery of lease rentals have also becomes easier. All of these factors make FIs and commercial banks strong competitors in comparison to other market players.

Keeping the above Critical Success Factors in mind, a leasing firm should come forward with the winning market strategies that may challenge the competitors' strategies, response to changing position of existing lines of lease assets and grab the opportunities.

The firm should concentrate its efforts on creating demand from those who are still averse to the very idea of leasing, and on making the lessees go into the lease of new assets. It requires patience and relentless efforts to convert the non-users into the users. There does not exist any non-users as such, since every business borrows money. The question is changing them over to lease option. A company may expand its geographical territory and expand its market share. Going into the hire-purchase business may help a lot as an alternative way of financing asset-acquisition.

A genuine concern for clients has to be built in the relation with lessees as great defensive strategy. Making the lease package design suitable to the problems faced by lessee, and following the lease contract in spirit rather than in letter can earn a reputation for the lessor. Taking interest in lessee's problems and showing an attitude of helping out may help establishing a cordial relationship and hence in earning the permanent account. Identification with a few items of lease may make it easier to have command over the situation and to command a reputation among the lessees.
Leasing companies, small or big, independent or having backing can still grow if they try to eat into the market of other financial options like terms loans, debentures, medium terms loan in the form of public deposits.

Leasing companies can open new vistas for doing business. A leasing firm should acquire a competitive edge over the other leasing firms. Here they face three tasks; increasing their a) competitive differentiation b) service quality and c) productivity. Identification of expertise and authority in the field of certain categories of assets is very much essential from competitive differentiation viewpoint

The standard of service has to be of high quality. Technical advice on selection of equipment, help in locating competitive supplier of the equipment, ensuring timely delivery of equipment, guidance and active help in organizing the testing and set up of foundation facilities, help in trial run, training of operators etc., are likely to be valued more by lessee (systems approach or we-care-for-you). After signing the contract a lessor showing keen interest in helping in upkeep and running of equipment would score a point higher than a lessor pounding the door for monthly rental.

A conscious effort shall be made so that the services appear to be valuable by matching the intended service level, actual service level and perceived service level. This can be achieved through effective communication.

5. PLANNING MARKETING PROGRAMMES:

a. Product strategy

Lease product is to be viewed also in a different perspective. The lease asset is only a part of the lease product. The lease asset is a medium through which lease product is sold. The lease product or the lease package needs greater attention than anything else. The package includes, in addition to the
lease asset, the rental payment, lease management fees, guarantee requirements, mode of payment, frequency of payment, spread of payment, duties and responsibilities of lessor and lessee, provision for eventualities and many other terms and conditions in the lease contract. Contract paper may be important but not more than the demonstrated willingness and concern for each other. The terms and conditions can be specially designed to the needs of lessee. The leasing firm should display innovativeness in the field to enjoy first-among-all positions.

Adding new products in the lease portfolio is only one of the aspects in marketing programme. Entry into the new lease assets should be decided on the basis of strengths and weaknesses of a firm. If a leasing firm is enjoying a good business due to its ability to convince the customers, it can lease any asset to the existing lessees even if a new lease asset had no connection with the present line of lease assets. A firm getting good business due to its technical expertise in the field of certain range of assets should not lease everything in demand, until the expertise is acquired. These firms can easily go into the related product growth in their lease portfolio.

**Lease Portfolio Management Scheme:**

Necessity is the mother of invention. Perhaps nothing could be more apt to describe the spate of innovations than the esoteric world of financial instruments has seen. The Lease Portfolio Management Scheme (LPMS) was born out of the desire of the Shriram Group to share the infrastructure facilities, branch network and expertise, which has been build over the past several years. This scheme allows players who specialize in certain area to share their expertise with others for a nominal charge.

The LPMS works as under. The lease portfolio manager enters into a Master Lease agreement with prospective LPMS client (cash rich corporate or financial institutions), who require depreciation cover as a tax-planning tool. The
client advance their funds to the lease portfolio manager, which in turn, are deployed in the lease of commercial vehicles in the name of the client by the lease portfolio manager. This enables the client companies to hold assets in their name and claim depreciation. The relationship between the lease portfolio manager and the ultimate user is governed by the sublease agreement. Under this scheme the client company is a lessor, the lease portfolio manager the lessee and sub-lessee and the ultimate user the sub-lessee. In addition to the regular lease rentals, the client company also enjoys the depreciation benefits. Thus, under this scheme, the lessor forgoes a part of his yield and also pays management fees to the lease portfolio manager. But on the positive side he continues to get the tax shields on depreciation, an assured minimum yield and also relinquishes the risk of non performing assets to the lease portfolio manager. The difference between the lease rentals paid to prospective client companies a lease rental income received from the ultimate sub-lessee the spread or income for the lease portfolio manager.

Thus if properly structured, the LPMS can be a win-win situation for all the parties to the transactions. The lessor is saved the hassles of NPAs, the lease portfolio manager gets his spread as well as his management fees and ultimate user gets finance at a competitive rates. Currently, the Shriram Group is the single largest player in the LPMS segment and manages over Rs.100 crore under this scheme. These funds have been deployed in financing the purchase of commercial vehicles like trucks, lorries and buses. The same thing can be applied in different industries.

b. Pricing strategy:

Pricing is another area requiring maximum attention of a leasing firm. Leasing is generally not viewed as financing option. It is resorted to as distressed financing. A low price strategy only can do wonder and change the scenario altogether. Market penetration is the need of hour for the survival and
growth of the entire leasing industry. Lessor must found 'seller's minimum' on the basis of its cost of capital, and other operating administrative expenses. This seller’s minimum can be brought down through

a) Cost effectiveness
b) Right decision on capital structure i.e. debt to equity ratio and
c) Acquisition of lease asset at most competitive price.

The last one can be achieved if executives of leasing firm have a good knowledge of market of equipment generally leased by them. The lessees are unlikely to have got opportunities for developing such knowledge and skills. A not-so-diverged lease portfolio and a tie-up with some manufactures, thus get prominence in the art of pricing. A leasing firm with lowest possible seller’s minimum gets tremendous advantage in terms of growth in business as well as profit. In most of the cases a difference between seller’s minimum and lessees maximum should be quite impressive for an obvious win-win situation. Price negotiation should be used to project the high-perceived value than the price quoted.

Price or rental determination is posing greater a difficulty here than pricing the sales contract as the price is spread over a period. And money has got a time value. These rental payments have to be adjusted, at times, to the cash flow pattern projected by the lessee. A lessor ought to have a good idea of expected internal rate of return. It should be enough to recover cost of capital and other administrative expenses. The rental amount should be determined as per the cash flow pattern of lessee such that the present value of all the rentals equate the present value of cost of lease asset at the discount rate equal to expected IRR. Though this may not be so easy because of trial and error approach required in determining the rental amount in such cases, the availability of computers have made this task much simpler. The irony of the fact still is that the leasing firms are charging constant rental instead of adjusting it to the lessee’s needs. For example, low initial rental with high rental later on would be
found very convenient by the new business or sick firms. It is worth trying out even if a little more risk involved in it. Thus customization is possible and also attracts many more customers.

d) Distribution strategy:

A zero level marketing channel is the best for services like business, may it be industrial equipment leasing or consumer durables leasing. It can work as an intermediary between manufacturer and customers. However, in case of consumer durable leasing, arrangement with retailers can be considered as an option. A memorandum of understanding with manufacturer may automatically make available the manufacturer's channel of distribution to leasing business also. A kind of direct marketing, however, is having its own plus points in leasing business where lease product has to be unique product. It is more so because of lack of awareness of leasing as a competitive financing mode. Once the lease is arranged, the lessee would have a 'consumer surplus' if he is getting 'distribution' services from lessor. A lessor may consider it to make sure that the lease asset reaches the lessor in right conditions and in right time. Lessor may pass on to the lessee the expenses incurred.

e. Promotion strategy:

The investment in publicity and personal selling are more yielding than advertising and sales promotion efforts. The direct marketing techniques could be resorted to for efficient selling of a lease product. The approach would be largely decided by the lease asset a firm is specializing in each category of leased assets as its own appropriate promotion mix with a variation in the style and policy of manufacturer. Using methodology and strategy suitable to the asset is likely to bring increasing returns. However, an identity as a savior and as an all weather friend must be created through constant and conscious efforts. Industrial and financial journals could be suitable media for building up such
image. However, in case of leasing of consumer durables a synergy has to be located in the promotional efforts of manufacturers. Ultimately these efforts should be an economical one. Courtesy calls, filling of bids, negotiations, follow-up and post-lease follow up, all should be utilised for image building, rather than only selling lease contract.

Innovativeness and project of uniqueness together with technical advice, service and price competitiveness can fetch a good harvest. Timely product diversification to suit the need of customers, opening up of new frontiers like rent-a-car type of business, flexible lease package and adoption of lease contract in spirit and such other actions only can help in achieving market share growth of a particular firm, as well as market share of entire leasing business in the financial market.

References:
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3. Philip Kotlar, "Principles of Marketing Management"