

Leasing: A Strategy to Finance Design and Creation of the Document Factory

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When an enterprise decides to create a Document Factory, leasing is often the best, most practical strategy to finance the capability, because it allows managers to avoid budgetary or capital financing constraints. But how does a team involved in planning and building the Document Factory develop a leasing strategy? And how do they choose a lessor and successfully introduce their financing plan to the senior management who must make the final decision?

Needed: A Document Factory and a Strategy to Finance It

Today's business environment is highly competitive and increasingly high-tech. Print/finish managers are challenged to meet change within this dynamic marketplace and produce high quality documents as cost-effectively as possible. The Document Factory offers a solution, since it enables strategic enterprise message management that adds value to operations by improving customer service, efficiency and productivity. It also increases profitability via 1-1 customer cross marketing, while reducing operating costs and complexity. Competitive organizations need a Document Factory capability. They also need an effective financing strategy to pay for it; a strategy that will also meet another important business goal of maximizing the Return on Investment ("ROI") or Return on Assets ("ROA"), which in turn creates shareholder value.

Print/finish managers, in creating a Document Factory, are engaging in a marketplace competition to show they can respond successfully to change and meet customer demands for high quality document production and delivery. They are also engaging in an internal competition for resources, namely corporate capital. To succeed in their bid to secure Document Factory funding, they must prepare a financial strategy that uses alternative forms of capital and supports the time frames, complexities and total capital required in making the transition to a Document Factory environment. With these requirements in mind, managers involved in

the financial planning process often focus on leasing as the best and most flexible strategy to successfully fund the Document Factory.

Why Lease the Document Factory?

Leasing has historically been a viable and well-used financial strategy in the high-tech arena. The Document Factory is evolving as a high-tech operation, and leasing, therefore, increasingly represents the best way to pay for it. The reasons are simple:

- The capital required to fund the Document Factory often exceeds the available or allocated capital for the enterprise.
- The enterprise has pre-existing plans for capital and the Document Factory is a non-budgetary item.
- The speed of change requires the enterprise to develop more rapidly than planned.
- The use of the equipment in the Document Factory offers more benefit when leased than it would under a traditional ownership arrangement.
- Enterprises are concerned about the balance sheet effects of ownership.
- Enterprises are unsure of future product needs or changing marketplace requirements.
- Delays due to budgets or capital allocation procedures prevent an enterprise from immediately maximizing a Document Factory's benefits.

Leasing Can Be an Off-Balance-Sheet Event

Leasing allows a department or enterprise to acquire the products they need immediately and without deploying corporate capital. Leasing also enables the enterprise to meet market or compliance requirements to obtain and use the most current equipment technology. Gone are the days when an enterprise buys, holds, and depreciates an asset over an eight-to-ten year life cycle. Leasing is often

an off-balance-sheet event. Consequently, it does not deplete the balance sheet, and may provide a greater ROI or ROA for the enterprise.

A fast-paced marketplace drives business managers to change their strategies for acquiring, servicing and retaining customers. For example, marketing departments are placing demands on print/finish managers to gather detailed customer information and leverage it to implement specialized 1-1 customer cross-marketing campaigns, as well as to improve customer service by giving customers the specific information they want, when they want it and how they want it. When managers are unable to support such revenue-enhancing initiatives or to respond to market challenges in general because of delays, budget restrictions or lack of capital, there can be far-reaching and serious consequences. Such lack of responsiveness may result in the enterprise losing customers and with them, long-term revenues that are important to the company's future profitability and viability.

Leasing Is a Practical Solution

Building a Document Factory creates expense, but it also generates efficiencies that cut costs and increase revenues. Leasing allows the enterprise to create the Document Factory and to offset the expenses incurred in using it with the value or benefits it generates.

Leasing also enables an enterprise to respond more rapidly to technological advances and gain a significant advantage over enterprises that must wait for traditional capital approvals before they can acquire technology that will bring important business enhancements. By employing a leasing strategy, enterprise managers can quickly integrate new technology that will help them realize more ambitious production goals and be able to produce more output, use fewer resources, and in less time.

In addition, leasing has always served as a protection against technological obsolescence. In today's high-tech environment this benefit continues to be of prime importance. But today, managers face another type of obsolescence, application obsolescence. The mission of the enterprise may evolve. As market demands change the enterprise must in turn change the products and services it delivers. The enterprise must therefore be flexible enough to accommodate and adapt to a whole series of changes:

- Changes in mission-critical documents.
- Changes due to compliance issues.
- Changes generated by new marketing initiatives.
- Changes in what customers require. Not a push, but a pull strategy.

Leasing can pay to redesign the Document Factory architecture to react to such changes and so reduce any disruption to production, and minimize the wait for the capital needed to fund technology and its new or revised applications.

Preparing for the CFO

A Chief Financial Officer (CFO) has many objectives, which sometimes appear to be in conflict. The CFO has to weigh all facets of corporate capital allocation and the return it is expected to yield. As they approach Document Factory financing, the challenges facing the CFO and print/finish executives include the following:

- True costs of mail generation are spread over many budgets and departments.
- Inefficiencies in the current environment are often understated.
- There is an existing investment in equipment and facilities.
- There is no model to estimate anticipated costs or payback associated with the Document Factory.
- Technology to be used in the Document Factory is in its early stages.

Print/finish managers may be challenged to explain the Document Factory concept, as well as the financial justification for a proposed leasing strategy to fund it. It is helpful if their explanation fully answers the question, "What is a Document Factory?" and also puts forth an effective strategy for equipment acquisition.

Key points to stress in discussing a leasing solution with the CFO are as follows:

- The cost of waiting, or doing nothing.
- How to leverage capital or existing budget dollars via leasing.

- The importance of responding to customers who offer the enterprise long-term value.
- How expected efficiencies and derived savings will offset expenses.
- The importance of servicing client demands (direct customers and internal customers of the enterprise).
- The ability to react to change without large capital deployment.
- A total solution may be needed if existing equipment cannot be integrated into the Document Factory because the cost and disruption of such change are prohibitive.

Proper use of leasing allows the enterprise to remain current regarding large volume mail production technology and corporate mission, especially important when the document is the enterprise's actual product.

Using leasing to finance a Document Factory enables the enterprise to:

- Generate cash flow (customer billings).
- Market new products and acquire new customers.
- Operate more efficiently by deploying new technology.
- Leverage existing capital.

Choosing a Financial Services Partner

Choosing a financial services/leasing source is an important part of the overall financial strategy for the Document Factory. Potential lessors should be sufficiently large to allow the enterprise to consolidate all financial requirements. The lessor should be familiar with the Document Factory concept as well as the products and services it requires. The lessor must offer the enterprise value-added service, advice, or structures that meet its needs. Since there is no single off-the-shelf Document Factory, there is no single financial structure for the Document Factory. The financial partner must be willing to customize to meet the requirements of the enterprise.

Most equipment manufacturers offer leasing programs and will engage in productive partnerships with an enterprise that is creating a Document Factory. Manufacturer-sponsored programs are often used to support product replacement and therefore offer the best total value to the enterprise. Such programs give an enterprise the flexibility to execute planned replacements or upgrades. Often ancillary services can be negotiated and included. Manufacturers are also often willing to create documentation that suits the needs of the enterprise and will accommodate changes.

Not All Manufacturer Lease Offerings are the Same.

Many specialize only in financing their own products, or are unwilling to include ancillary services. In some instances, the manufacturer's leasing group is not large enough to handle all of the manufacturer's requirements of a total Document Factory, or they are not financially viable enough to support the future needs of the enterprise.

Ideally the enterprise should select a lessor that is capable of functioning as a true partner in the Document Factory. This will make the relationship considerably easier, and will consolidate all financial requirements and negotiations.

Attributes of the Leasing Partner and Key Questions to Ask

- Is the lessor a rated organization that can ensure low cost of capital and therefore lease offering, as well as ensure future growth requirements will be fulfilled?
- Is the lessor familiar with the industry and the Document Factory?
- Will the lessor provide funding for other manufacturers' equipment and thus give the enterprise a single, convenient funding source?
- Is the lessor capable of asset management in the high-tech arena?
- Will the lessor finance software and other soft costs?
- Creating a Document Factory may involve expansion or rebuilding. Can the lessor provide

financing for real estate or facilities, as well as equipment?

- Is the lessor capable of offering programs outside the continental United States?
- Does the lessor offer Master Lease Agreements (MLAs) that make add-ons or future business needs more simple, and allow other manufacturers' equipment to be placed under lease without renegotiation?
- Will the lessor assign a dedicated contact to the enterprise?

Summary

Leasing is a valuable tool in the creation of a document. The complexity and capital requirements of the Document Factory create the need for a fully developed financial strategy and a suitable financial services partner. Selecting a leasing partner is equally as important as selecting an equipment supplier for the Document Factory.

Print/finish managers must work in concert with the financial group to discover hidden costs and revenue opportunities to make leasing the Document Factory a viable proposition.

Two factors make leasing the most suitable financial strategy to support a Document Factory: There will be recurring changes to an enterprise's mission that will necessitate changes to its Document factory. And, increasingly, the Document Factory is a high-tech operation.

Capital is a corporate asset and must be deployed by the enterprise to obtain maximum benefit via ROI or ROA and must create shareholder value. Leasing provides an alternative source of capital. It allows the enterprise to leverage existing capital and enables departments to work within predefined budgets.

These are the considerations to bear in mind for those contemplating a Document Factory. A review of the ideas, questions and suggestions above should help managers in creating a total strategy that will help them transition to a Document Factory with as much ease and as little disruption as possible.

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