

White Paper

Leasing Software Enters a New Phase of Configurability

John Voytko



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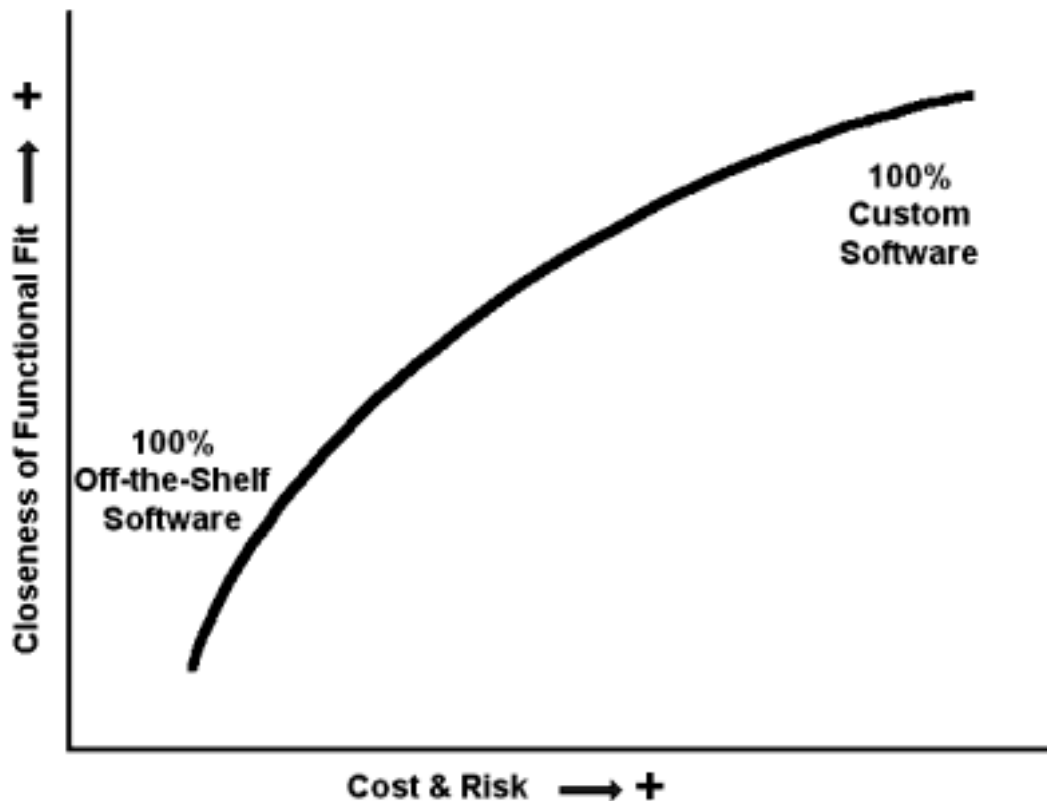
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XeC is a software consulting group specializing in asset finance system implementations.

With IT budgets beginning to thaw, leasing companies are once again looking at upgrading or replacing their lease administration software with an eye toward further streamlining of operations and supporting new financial products. The lease administration system is intricately imbedded within the business operations making it a non-trivial decision. This article will explore the options available to lessors as defined by custom, off-the-shelf, and configurable leasing systems.

Only a few years ago, lessors had two choices for leasing systems: 1) build a custom solution or 2) purchase an “off-the-shelf” system possibly with modifications. This decision was typically cost and risk based, see diagram A. Custom solutions were more expensive and riskier but had the potential to produce a solution more exactly matching a company’s operational requirements. “Off-the-shelf” solutions were more affordable and proven but required the lessor to accept the limits of the system or pay the vendor to modify the software. For the purposes of this discussion, service bureau or in modern phraseology ASP (Application Service Provider) use of leasing software will be included in the “off-the-shelf” category.

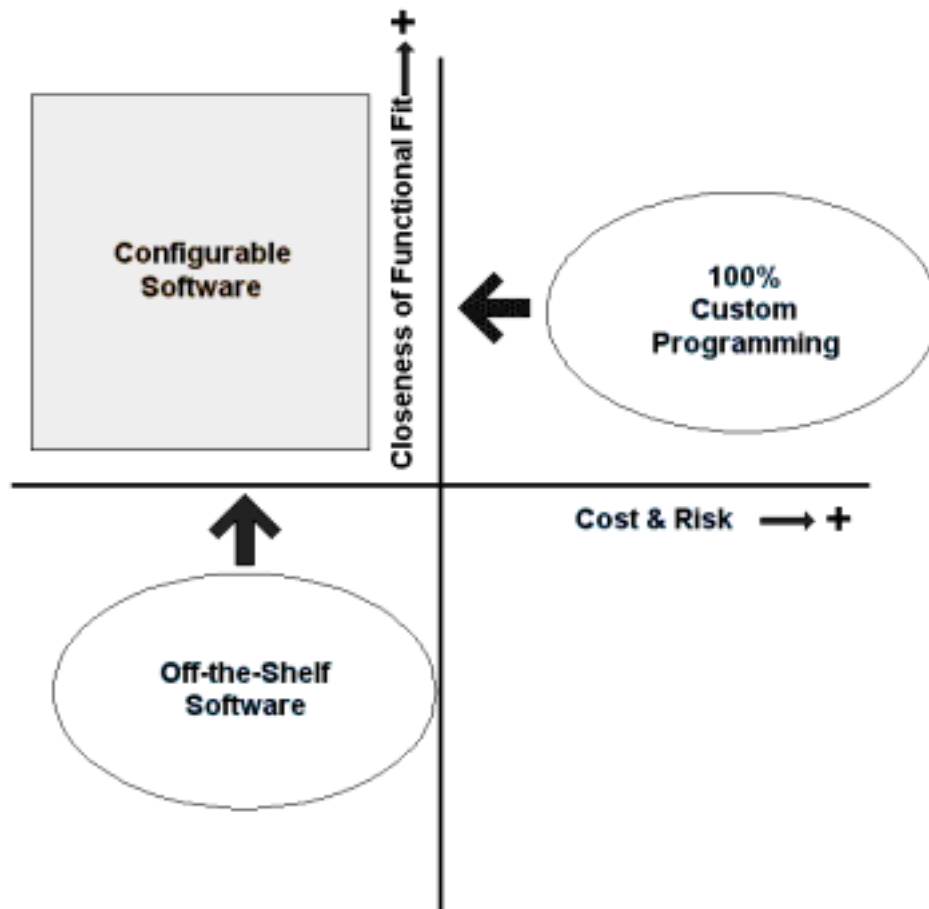
Diagram A



The decision is no longer black or white. Software providers are responding to market demand for lower cost semi-custom software. New leasing software providers from North America as well as Europe are entering the leasing software market. They are creating a “middle ground” by developing systems using components and flexible

configurations. These systems are not 100% user definable but are much more flexible than traditional systems and at a fraction of the cost of a complete custom solution. Configurable systems accomplish this flexibility by writing callable components and by using definable screens, report writers, and a workflow language to link everything together. The goal is to provide a leasing system more tailored toward a lessor's needs without requiring "one-off coding". Referring to diagram B you will see the high functional fit, low cost quadrant (upper left) is where vendors are trying to position their solutions.

Diagram B



Custom solution vendors are trying to gain market share in this quadrant by reducing programming costs through the outsourcing of coding to firms with less expensive resources. The problem is that custom code still requires design resources no matter how inexpensive the actual coding resources become. Custom coding solutions typically suffer from the inability to reuse the code because it is optimized for a single client. Some custom development companies are trying to move toward a more off-the-shelf

module, but few are prepared to invest the time, intellectual capital, and support to operate effectively in the leasing vertical.

Off-the-shelf software suppliers are also developing ways to make their products more flexible by incorporating software switches to activate select features based upon customer requirements. While this allows one set of code to more closely match each client it causes additional overhead in terms of larger code sets, more complex support calls, and expanded testing scripts. Invariably some clients within an “off-the-shelf” provider’s user group have the “standard” version of the software modified to such an extent that it removes them from the standard supported product. This creates significant support and testing issues. Some veteran “off-the-shelf” vendors are attempting to decompile their legacy software into smaller modules to appear more component like, however there is often an interface issue between these separate modules if older programming languages are used.

While configurable systems seem to be an ideal solution they have a hidden downside - - deployment and implementation costs. Many of these configurable systems are so flexible they cannot run “out of the box”. Some level of configuration is required to even get them functioning. An analogy would be a homeowner working with a construction crew and a pile of building supplies. Almost any type of house could be built, but you need an architectural plan and general contractor (project leader) to create the actual house. The same holds true with these configurable systems. Analysis and product configuration become much more important often making up over 75% of the total solution cost. Specialized consultants are often required at phases of the project to review and translate the lessor’s business processes into a solution. The huge upside is the ability to reconfigure them without actually rewriting the code in the event of a business process change, additional of a new product, or regulatory changes.

The introduction of these radically configurable solutions creates a dilemma for both sellers and buyers. Theoretically a vendor could respond positively to every item on an RFI (Request for Information) if enough time and effort is invested in the implementation and set up. With the success of the implementation depending more on the implementation consulting team than the actual software components new issues emerge. Project management, workflow analysis and end user involvement become much more important and can “make or break” a project. Lessors need to come to terms with the larger role of the implementation and configuration teams as well as the new role of their internal IT support staff.

These new configurable leasing systems offer the promise of moving the functional control to the lessor and eliminating the cost and delays associated with traditional off-the-shelf and custom solutions. Traditional IT support teams would be required to expand their area of expertise to include leasing operations in order to understand and translate end user leasing requirements to implement the appropriate system changes. The huge upside is a more rapid response to user demands and a business unit that can respond faster to market changes. Implementations must factor in the additional cost and time associated with educating IT departments on leasing. Realistically 4 to 5 days of

leasing education might be required to get each IT support person up to the level of understanding required to effectively support and configure these new systems.

Summary

In summary, this is a paradigm shift for the leasing software industry, the finance companies, and the decision-making process. Users will be able to change the way software handles their business processes without the long waits and additional costs of the past.

But a famous quote speaks volumes, “With great power comes great responsibility”.

About the Author

John Voytko is the president and co-founder of XeC, Inc. a software consulting and support group specializing in leasing system selection, implementation, analysis, and education. Mr. Voytko has over 15 years of experience in technology implementations and has been involved with the installation of over 350 leasing and loan systems in 22 countries. For the ten years prior to XeC, he was the Director of new Business for LeaseTek, a leading international provider of lease and loan software. Prior to LeaseTek, Mr. Voytko worked for a start up company developing optical character recognition software and worked for Mellon Bank’s IT department for the selection, planning and implementation of their pilot image management and workflow system. Mr. Voytko earned his Bachelor of Science degree in petroleum engineering from the Pennsylvania State University and his Masters degree in management and policy analysis from Carnegie Mellon University. He can be reached at +1 724-861-9953 or via email at Jvoytko@xec1.com. The XeC, Inc. website: www.xec1.com.