

CFO Hot Buttons — The Key to Closing More Deals

Since the equipment leasing and finance market is primarily a financial services business, success hinges on a salesperson's ability to sell to the needs of the financial decision-maker. Therefore, the challenge lies in not only reaching the decision-maker but also in understanding his or her specific financial concerns.

By Shawn Halladay

The equipment leasing and finance market, as we all know, is primarily a financial services business. It only makes sense, therefore, that we must identify, and sell to the needs of, the financial decision-maker to be successful. The challenge, of course, is to not only reach that person as part of the process, but also understand their specific financial concerns. In this article, I will identify issues important to financial decision-makers and how you can effectively address them with confidence as a component of your sales process.

Who is the Financial Decision-maker?

All one has to do is examine the equipment acquisition process, as illustrated in Exhibit One, to recognize the importance of the financial sale. Three of the four steps lessees take when acquiring equipment represent financial decisions. In the investment decision, for example, the lessee goes through a financial analysis (capital budgeting) to determine whether the equipment should be acquired in the first place.

Even the equipment decision as to make and model may be influenced by a financial decision such as whether the manufacturer offers a financing plan. The lessee also conducts a financial analysis such as lease versus purchase when determining how to finance its equipment. Although the lessee considers qualitative factors when selecting a lessor, the final decision comes down to, or is heavily influenced by, the economic and financial factors (See Exhibit One: Equipment Acquisition Decision Process).

My experience in the marketplace, along with that of my clients, also indicates the increasing importance of the financial sale. Oftentimes, the financial decision-maker makes the final decision. For example, I have seen a CFO insist on making the equipment decision based solely on the financing

terms of the transaction, in spite of the equipment recommendation made by operations. In this situation, he felt the equipment functionality between vendors was equivalent and went with the solution that had the most favorable impact on the company's financial picture, even though it meant using a different equipment vendor.

Given that the financial decision has become so important, it is essential to understand who is going to pass final judgment on your leasing proposal. If you looked at the organization charts of 500 lessees, you would not find a chief leasing officer. In fact, you would be hard pressed to find even a manager of leasing. Lessees do not dedicate specific resources to this job, meaning it usually ends up, by default, with the CFO.

The securities issued in the securitization are more highly rated by participating rating agencies, thus reducing the cost of funds to the originator when compare to traditional forms of financing.

To further complicate the situation, leasing is not a task high on the CFO's radar screen. As much as we like to think leasing is important to everyone, it is just one of numerous duties the CFO has to deal with on a daily basis. The CFO does not have a lot of time, and probably does not want to spend much time on this decision. Your value-add, therefore, is to identify and understand the specific metrics, or hot buttons, important to each CFO.

Some CFO hot buttons on which to focus include:

- Cash flow
- Accounting results
- ROE
- Balance sheet management
- EBITDA
- Cost of capital
- Tax position
- ROA
- EVA
- Earnings
- Long-term capital growth
- Financial covenants

The starting point in this process is to understand the financial concepts

EXHIBIT 1: Equipment Acquisition Decision Process

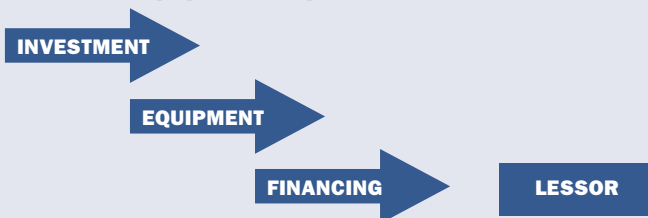
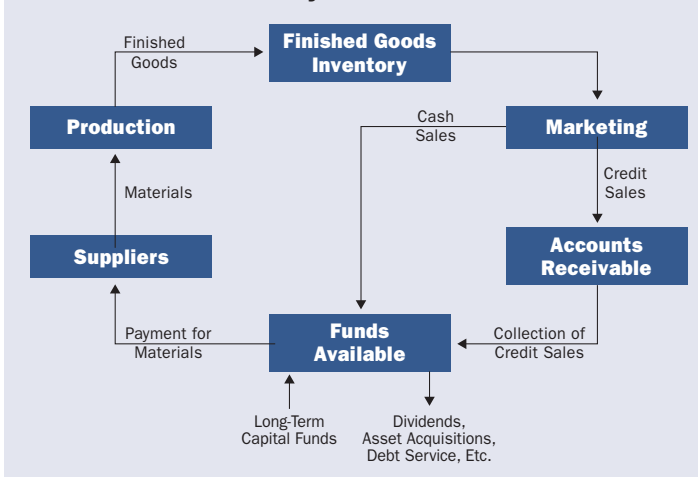


EXHIBIT 2: Cash Flow Cycle



underlying each of these hot buttons. The CFO does, so you need to possess a base competency with them also — the most successful lease salespeople do, particularly in the middle and large-ticket markets. Familiarity with the customer's business, current results, measures and challenges also is a must. You can find this data through the Internet, public filings and news reports. You must then clearly and effectively articulate how leasing helps improve those measures.

Helping the CFO achieve or improve his or her relevant metrics with the leasing product will close the deal. If you are able to link a key metric to the CFO's compensation formula, you will be even more successful. Whether you use a Socratic sales approach or some other method, being able to identify the CFO's hot buttons is critical.

Once identified, how can you use these hot buttons to your advantage? Although more hot buttons will be addressed in subsequent articles, let's start by examining one of the most important — cash flow.

Cash Flow Consequences

Cash management has consistently been the number one reason for using leasing, as reflected in various ELA and other surveys conducted over the years, and for very good reason, as cash flow is the lifeblood of any firm. A company may be income rich, but without cash, it cannot continue to function, as many former businesses have found out. As a result, one of the CFO's prime considerations is the effect on cash of any equipment decisions that are made.

The starting point for any cash flow discussion is the cash operating cycle, which exists in some form in every company. The components may be slightly different, but the process and flow is the same. A sample cash flow cycle is shown in Exhibit Two. This exhibit illustrates how a manufacturer converts cash into inventory, sells it at a profit, and then returns cash to the cycle (See *Exhibit Two: Cash Flow Cycle*).

If a company can put more cash into the cycle or increase the velocity (turnover) of the cash moving through the cycle, it can enhance its profitability and other performance measures. Doing so also creates additional cash for other uses. As an illustration of this concept, consider the airline industry.

Southwest Airlines, which has the shortest turnaround time on its flights in the industry also is one of the most successful. Delta, with an average turnaround time almost twice that of Southwest's, is facing financial challenges. Delta recently announced efficiencies that will decrease the amount of time its jets are on the ground — it is increasing the velocity of its operating cycle. The result of this change is to create the time equivalent of 19 additional aircraft.

The same concept applies to a dollar in your customer's business. Think of a dollar in the cash operating cycle as being similar to one of Delta's jets. If a jet is sitting on the ground, it is not making money. Just as Delta makes more money by moving its jets through its system, your customer makes money based on how many times it can move a dollar through its cash operating cycle.

Now put this information to use selling the leasing solution. We all know that an operating lease provides cash flow benefit relative to a loan or cash purchase, or that a sale-leaseback infuses more cash into the cycle. You need to quantify those benefits for the customer in your sales presentation by correlating the cash savings of the lease option to a key customer measurement such as the return on sales.

For instance, if your lessee has a 5% return on sales, it will earn five cents on a dollar each time it moves through the cash cycle. You can highlight your understanding of the customer's business in this example by pointing out to the CFO the incremental benefit of the lease on profits.

For instance, you might say, "As you can see, Ms. Troy, the lease alternative creates additional dollars of cash that can be used to increase sales. Based on your return on sales of 5%, each dollar of cash savings from the lease will contribute five cents to your profit if you deploy it into operations. Now, if we multiply that five cents by your cash velocity of ten, you can begin to see the profit potential of choosing the lease."

To tell the CFO that the lease saves cash is not enough. You need to show the customer how your product can contribute to its bottom line!

Conclusion

The financial sale has become critically important in today's market, as reflected in the increasing number of classes we are being asked to teach on this subject. Furthermore, we see this emphasis whether in Hong Kong, London, Mexico City or Chicago. Although this article has addressed only one CFO hot button, I will, in the next installment, discuss and illustrate how you can use other hot buttons, like EVA and EBITDA, to successfully sell the lease product. **m**

Shawn Halladay is a principal with The Alta Group and also is managing principal of its Professional Development Division, the training and education subsidiary of The Alta Group. The Alta Group provides consulting and advisory services to the equipment leasing and finance industry on a global basis. Halladay's services are utilized primarily in the accounting, tax, and pricing areas of Alta's engagements. Over the past 20 years, Halladay has developed significant expertise in all areas of leasing, including accounting, pricing, tax, funding, and vendor leasing.