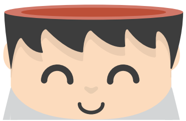
Demystify the ROI of your leasing software: guidelines for key indicators to be measured in the asset finance business

Naturally, as a business leader you seek to generate more profit with fewer expenses. Of course, you consider the risk you are determined to take, and what, in principal, is the time period you expect for accumulating the return. Return on investment (ROI) is the main measure intended to provide guidelines for taking on business investments. It simply determines the financial success of various investments: whether it is an investment in new property, a marketing campaign or a leasing-management software system.

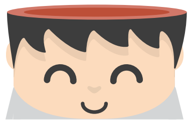
While it's relatively easy to calculate return on investment from the real-estate business or from your marketing campaigns, in your leasing business you can also use ROI calculators in order to understand where you stand. Things get more complicated once you turn to business-management software.

WHY?



PROBLEM No. 1

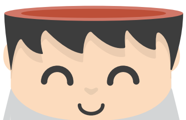
Problem no. 1 is that ROI calculation is time-consuming and requires a great deal of effort from you. You may use some ROI and TCO calculation tools by Nucleus Research. We bet that, even if the file does allow you to receive valuable information, you will close it within 5 minutes, unless you're an IT or analytics geek ☺!



PROBLEM No. 2

Problem no. 2 is that you cannot always obtain a solid evaluation of the expected return. There are tangible (financial) and intangible (non-financial) benefits. While tangible benefits clearly show some numbers you can benefit from, the intangible benefits give you the feeling that "well, it should influence our business somewhat positively, we spent so much money!" Or "it will increase our productivity and efficiency". Or "it will increase our customer satisfaction". And so on. There's no secret that many suppliers and vendors, and even people responsible for the new software within the company, like to play on intangible benefits because… no one really knows what should be calculated and/or how the numbers should be interpreted.

When forecasting costs and benefits, it is not always possible to obtain a high degree of certainty with respect to the accuracy of software costs and benefits.

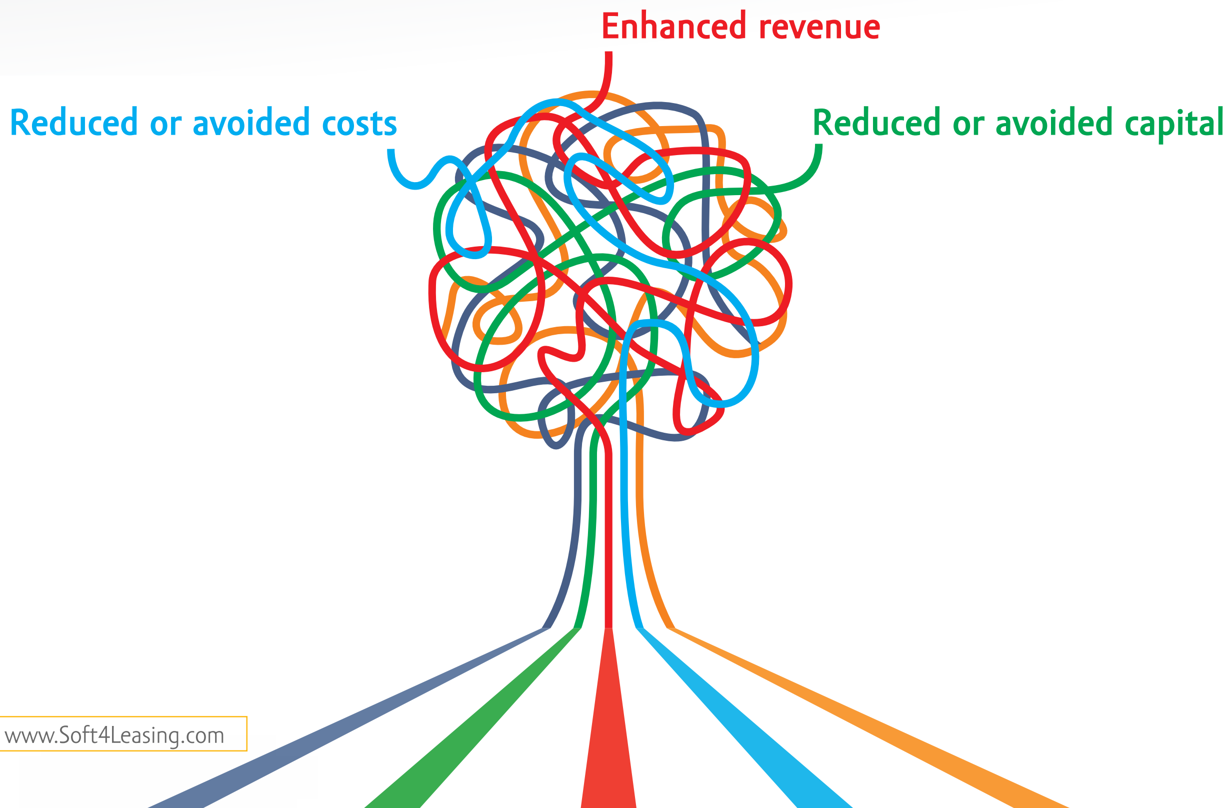


PROBLEM No. 3

Problem no. 3 is that, in order to measure the difference/improvement, you need to have the historical indicators/numbers! Also, the benefits may be attributable to more than one improvement – so you need to be careful to avoid double counting.

And finally, the global problem is that you can always manipulate ROI calculations in your favour. This is part of human nature – "if a woman wants that purse, she will find all the reasons to buy it!" Referring to leasing or any other business, if you are the person responsible for a new software system, you will find all the justifications to prove you were right in your choice once you've made it.

So, before you make that choice, here are some simplified strategies to discuss before choosing lease-accounting and management software. The tangible benefits by which you should measure your achievements using new software are quite clear:



These are the factors that will affect your expectations and influence the actual ROI:

❶ Changes in productivity level.

There is no doubt that time is wasted when your employees have to duplicate data records (working with several, often outdated and slow software systems), deal with incomplete data or data loss, etc. If a potential system allocates your staff better, tightens your business process in an orderly fashion, reduces overtime, prevents human mistakes, then it is an additional ROI parameter. And that is a big one.

What to measure:

Try to evaluate how much time you expect your employees will save while working with a new system. The fact is that saved time is not equal to the time worked – time is saved when the contracts are prepared faster; your customers served faster; time from the quote to the application to the contract is shorter, and so on. Take into account that the time needed might increase at the beginning - it will take longer for employees to complete their daily routines, but it should go faster once the users are used to working with the new system (usually within 3 months after go-live). Of course, referring to problem no. 3, you would need to measure the time spent on various tasks previously and trace the improvement.

An easier way to evaluate productivity as an ROI indicator is to estimate the enhanced revenue with the same number of staff once your business grows and has avoided the costs you would have entailed by employing new people if you had stayed in the old situation. One very clear measurement was provided by our customer: "I have 2 more people on staff than I actually need because of inefficiencies in our system". It is easy to calculate the benefit they expect using those 2 extra people for generating more revenue, and to evaluate costs the old system brings to the company.

❷ All in one – lease accounting and management system integrated with financial accounting.

Most of our customers come to evaluate Soft4Leasing once they start having problems due to several different software systems with no data consistency. System accounting includes accurate billing (automated, even better), timely postings, smooth collection cycles, reporting and so on. An improved financial data approach provides you and your staff with more confident and intelligent work.

What to measure:

If you use several systems, you might want to calculate how much time your people spend constantly logging into different systems; how much the support from each software provider costs; if the upgrade to a newer version of the software is possible and how much it costs; whether those systems are capable of "talking" to each other; how much data/ time/ profits you lose if one system is down and the data entered is not pushed to the other system on time.

❸ Increased dealer and customer service level.

If your business has no meaning without dealers, consider fulfilling their expectations. The same applies to your customers. An attractive and user-friendly front-end interface, together with useful and consistent functionality, improves your collaboration with brokers. Moreover, automated and well-defined processes give prompt and accurate replies and notifications, thus your interaction with dealers and customers becomes pleasant and valuable.

What to measure:

Determine the change in the number of processed applications and settled deals per a certain period as an ROI factor. You might want to evaluate the time from quote to application and to the contract as your KPI. Or time to credit decision.

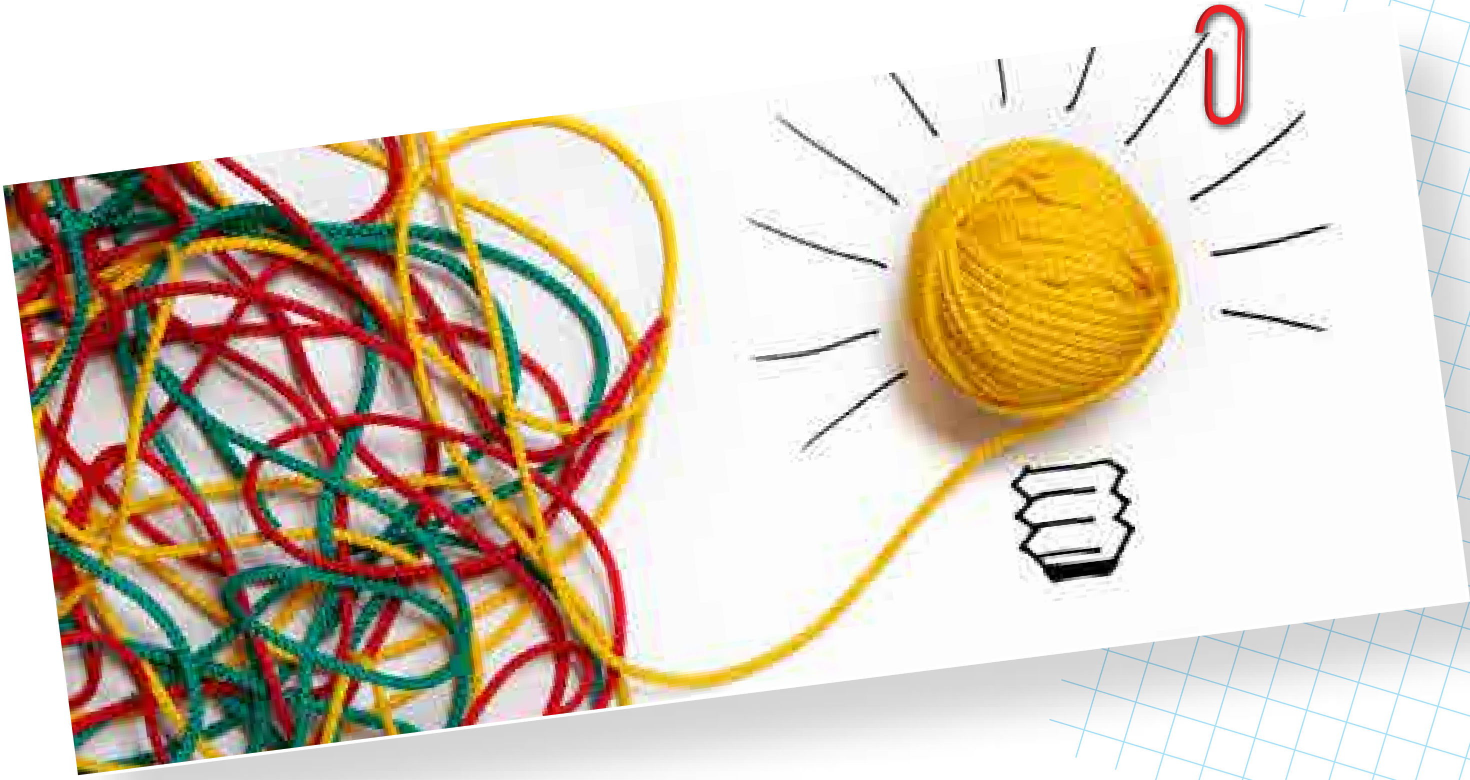
If you'd like to measure satisfaction, you can easily do that as well – just start carrying out regular surveys (let's say every 3 months) with some repeating questions. Once you start getting a satisfaction rate, you'll see how you are doing and where to improve.

❹ Your enterprise compliance.

Nowadays all organizations must follow various requirements of regulatory agencies. Greater control and repeatable processes improve your ROI by lowering your compliance costs and reducing the risk of penalties.

What to measure:

Take into account your historical and expected compliance while estimating ROI.



❺ Business growth matters.

Those who operate a business with front-end and back-end employees, should think about business growth. The bigger the portfolio growth you are anticipating, the bigger the ROI can be for a unified, well-organised and efficient software system.

What to measure:

Imagine you have successfully increased your portfolio by x times. As a result, you need to increase the number of your front-end employees taking into account this x factor. With respect to ROI measurement, the best system is the one that prevents you from boosting your back-end as your front grows.

Let's turn that into some real numbers. For example, you have 10 back-end employees, 100 front-end employees, and your current portfolio reaches 1M dollars. In order to manage a portfolio of 1.5M dollars effectively, you increase your front-end to 120-150 employees, but your back-end remains stable because of efficient software.

❻ Direct ROI.

Finally, evaluate your clearly measurable ROI: received increase in revenues and other rewards that reflect in the financial statements.

What to measure:

Our leasing customers measure various KPIs:

- Growth of lease agreements/portfolio,
- New business additions
- Millions in assets
- Revenue growth per customer
- Profit
- Yield
- Market penetration rate
- Service cost per customer
- Average contract term
- Etc.

The purpose of this whitepaper was to show that ROI can be projected in a timely manner. According to various sources, direct (financial) ROI accounts for approximately half of actual ROI, while the rest is hiding behind elements 1-5 set out above (and the list is not finished, you might well find other influencers in your business). So it is very important to take barely measurable as well as obvious factors into account. Some companies are very detailed in calculating their possible ROI from their leasing software system, while others enjoy easier and smoother business process and believe they get significant use from the leasing software without getting into the particular results. Which type are you?

IT Costs =

Hardware acquisition (computer hardware, servers, telecommunication equipment) + software acquisition (licenses)
+ software customisation costs
+ project management and implementation costs (consulting, training, temporary services, data conversion)
+ on going costs (upgrades, re-training)

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