

## How to Identify Your Best Prospect

By Loni Lowder, President

Selling equipment leasing in today's competitive world is not a passive activity. By and large, it's not accomplished by sending out mailers to a broad range of companies and then sitting back waiting for those companies to call you. If you are doing that, I think you'll be looking for a new line of business in the near future. What selling the equipment lease is about is active selling and marketing.

The purpose of this article is to give you a tool to help you quickly and readily identify those customers that, at least from a financial perspective, are most likely to embrace leasing as a way to acquire equipment. Back to active marketing and selling. A direct mail campaign can be effective, but only when closely followed with direct contact with the customer, either in person or on the telephone. And it's really in-person calls or telephone calls that net us 90 – 95% of the results. Telephone calls can take a lot of time and in-person calls can take even more time, not to mention incremental costs of traveling to and from each customer.

Another challenge with selling the equipment lease is that many customers are automatically biased against leasing, or with recent bad press that the leasing industry has received (Here I'm referring to a rather prominent article on the front page of the Wall Street Journal a few months back). Putting all of that aside, we still have to sell the equipment lease. Wouldn't it be nice to have a method that would, at least from a financial perspective, help us identify those companies that would be most likely to lease? Wouldn't it be even better if we never had to mention

**TABLE 1**

\*Loan parameters: 10% interest, annual in arrears

LOAN A*			
0	1	2	3
(10,000)	4021	4021	4021
LOAN B*			
0	1	2	3
(10,000)	1,000	1,000	11,000

the word “lease”? I'm about to give you that method.

Let's set the scene. You are either talking to the customer on the telephone or are in the customer's office. Before you say anything about equipment leasing, you hand the customer a piece of paper. On the piece of paper you have described a loan. The loan is for \$10,000.00. The interest rate on the loan is 10% and the payments are annual in arrears. There are two methods of repaying the loan. “A” is to pay the loan back in even payments: \$4,021.00 the first year, \$4021.00 the second year and a final payment of \$4,021.00. The second method is, “B”, to repay the loan by paying interest only in the first year, interest only in the second year, and an \$11,000.00 balloon payment the third year (Please see the accompanying illustration).

Okay, let's recap. You are talking to the customer on the phone or are in the customer's office. You either fax or hand the customer this illustration with the two alternative methods of repaying a \$10,000.00 loan. You now ask the customer to choose a method that they would most prefer using in repaying the loan. Those customers that choose “B” are your best leasing prospects. Why? Because they have a liquidity preference. If you quiz them on why they chose “B” over “A”, you would

probably hear something like this: “I prefer ‘B’ because it gives me an extra \$3,028.00 a year for the first two year of this loan transaction.” If you were to further ask them what they would do with the extra \$3,028.00, you would receive a myriad of answers, but what most of those answers would boil down to is the fact that the customer has other places to use that money now and would like to defer paying that money back. The reason in most cases is that the customer feels they could make a better return that 10% (in this case) from the incremental difference in the first two years.

What you have when a customer chooses “B” is a customer who has a liquidity preference. They would like to have the ability to direct excess capital into other investments that they believe will net them a higher return. Now

sometimes liquidity preference comes from just wanting to pay the bills and meet the payroll. Nevertheless, it still creates a liquidity preference. It is this company that is your best potential for equipment leasing. Again, I’m speaking from a strictly financial standpoint.

Now, a few words about those who choose “A”. Those who choose “A” relative to “B” are in an interest minimization mode. They are more conservative, have less alternative opportunities to invest excess capital, or maybe are just more conservative in general. For these customers, I would switch to a cash or loan vs. lease analysis, to show them their true after-tax cost of cash vs. lease or loan vs. lease.

Well that’s it for now. Good luck!