

# Third-Party NATION

**ECS FINANCIAL SERVICES** in Northbrook, Illinois, began as a CPA firm more than 50 years ago providing general accounting and tax services to companies in the Great Lakes area. But when a client asked for help starting a captive leasing company, ECS not only joined in; the company partnered with a software provider and bought its program to manage the new leasing company's operation. ECS Financial Services now provides third-party services nationwide. "We used that software to service the leasing company's portfolio, and then we started managing portfolios for

others in the industry," says Shari Lipski, Principal at ECS.

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-Shari Lipski, ECS Financial Services

Today Beacon Funding is an ECS sister company originating \$100 million annually in small-ticket transactions in the textile, medical equipment and transportation industries. ECS, meanwhile, manages over \$1 billion of equipment lease transactions annually though portfolio administration, accounting, tax preparation, compliance and audits while still maintaining its roots as a traditional accounting and tax firm with more than 2,500 clients nationwide. "By selling our services as a third-party provider to equipment finance businesses, we've tripled the size of our company," says Lipski. "We're constantly hiring to meet and exceed customer needs, and with each new client, we learn something new that makes us stronger, more flexible and more adaptable. We capitalize on each new relationship by customizing a partnership with them and becoming an extension of their company."



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# Third-Party Services and Managed Services: THE DIFFERENCE

- **THIRD-PARTY SERVICES** are services supplied to an equipment finance company by another company.
- MANAGED SERVICES is a term that describes the bundling of equipment and ongoing services and/or supplies into a solution that an equipment finance company provides to customers who use the equipment, but don't own it and can give it up at any time.

Because of the recent expansion of managed services into more markets, many companies offering these solutions need third-party services for billing, collections and processing the managed-services business.



### Narrowing the Focus

In the success of ECS Financial Services and other companies offering third-party services to industry members, David Schaefer sees a trend. "I think there's a bit of a renaissance going on," says Schaefer, Chairman of ELFA and the CEO of two companies, service provider Orion First and equipment financing company Mintaka Financial, both in Gig Harbor, Washington. "Equipment finance companies are focusing more narrowly on what they do best and reassessing how they do everything else," he says. "Many are asking why they continue to do some things they know others can do for them—and do better."

The result is twofold: More equipment finance companies are looking to acquire third-party services, and organizations that provide them are growing. "I'm getting input from companies interested in developing managed-service programs but which don't have servicing capabilities, and conversely from funders that want to expand their offerings to become servicing agents," says Diane Croessmann, Director of The Alta Group, a Glenbrook, Nevada-based consultancy that provides expertise in equipment leasing and asset management. "Many smaller equipment manufacturers and resellers are likely to be at a greater disadvantage as they contemplate entering the managed-services market due to the investment required to accommodate the servicing requirements around hardware, software, supplies and services bundles," she adds. "They will be in search of servicing agents and the industry will be well served if more equipment finance companies consider providing them."

Eric Gross, Senior Vice President and Director, Managed Services, at Bank of the West in Portland, Oregon, explains. "Companies that provide back-office services are not new. What's new is the increased demand for third-party services from leasing companies coming into the equipment finance industry. They see the value of outsourcing some or all of their back office."

At the same time, Gross says, finance companies, especially those that are captives of technology manufacturers, want to accommodate the growing number of customers calling for pay-per-use arrangements instead of traditional leases or loans. "But there's no way a traditional bank or equipment finance company will finance these structures, because they can't discount the payment stream," he says. "And because of the manufacturers' go-to-market strategy and product

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offerings, they can't place the paper, but must keep it on their balance sheet—and they don't have the infrastructure to service this business."

Before we go further, an explanation of managed services and third-party services is in order. Bank of the West provides third-party services, mostly to captive finance companies, and has done so since acquiring Trinity Capital 17 years ago. These services form an end-to-end solution customized for each partnering company that can include application-processing, documentation, invoicing, customer service and collections to the end of the lease term. Funding may also be included. "This is third-party servicing, but we've always called it 'managed services,'" says Gross. "And we know the phrase now means something completely different in the technology markets."

He's right. Managed services refers to the bundling of equipment and ongoing services and/or supplies into a solution that a company provides to customers who use the equipment but don't own it and can give it up at any time. Because of the recent expansion of managed services into more markets, however, companies offering these solutions need third-party services.

## Changing Markets, **New Opportunities**

"Companies providing managed services need support of the entire managed-services portfolio," says Bruce Kropschot, Senior Managing Director of The Alta Group. "The number of leasing companies providing third-party servicing is still quite small, and these companies have only a small percentage of the overall marketplace," he adds. "But those that have diversified from equipment financing into providing services have done very well and have growing operations."

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GreatAmerica Financial Services is such a company. Created in Cedar Rapids, Iowa in 1992 as GreatAmerica Leasing Corporation, the firm today provides financing and consulting services in all 50 states and certain U.S. territories and employs 500 individuals in Georgia, Minnesota, Missouri and Iowa.

"Our whole reason for existence is to provide value to our partners that we provide funding and servicing solutions for in the markets we serve," says Joe Andries, Vice President and General Manager, GreatAmerica Financial Portfolio Services Group. "Subsequently, about 15 years ago, we realized that these channel partners wanted more from us than financing."

GreatAmerica responded first by creating Collabrance, a private-label service delivering IT solutions and customer support to vendors of office, telecom and IT equipment. Next came PathShare HR Services, a customized solution customer companies can use for hiring, training, leadership and organizational needs. Today the company is organized into seven entities, each of which focuses on a specific market and immerses itself into the events, education, training and research of its industry. "Collabrance and PathShare put us in the mindset that we could leverage those things we happen to be really good at," says Andries. "From there, it was a natural step to form GreatAmerica Portfolio Services Group, where our partners could benefit from access to our operational platform."

The company had spent millions on the platform, and customers were asking about it. "Demand for these services was coming from independent finance companies, banks, captives and financial investors," says Andries. "We understood that by using internal

talent and acquiring some outside talent, we could launch a whole new division based on outsourcing our platform."

Customers would need more than the technology platform, however. They would need help determining which processes and reporting capabilities would best suit their situations and provide them with full control of their portfolios. "Clients also placed high value on the service experience their customers would receive through our outsourced servicing model," Andries adds.

Andries says the launch of the Portfolio Services Group was relatively smooth. Experienced employees were initially assigned to the new effort, and servicing policies and procedures the company had established and refined for the past 18 years were applicable and served as a value-add for the new clients.

#### **Benefits Outside the Box**

"The Portfolio Services Group has opened opportunities in industries and markets that wouldn't have appeared on our horizon if we had remained solely in our lending role," says Andries. "The move has also strengthened the GreatAmerica brand by exposing other industries to the company's mission of helping companies achieve greater success."

Andries says the company has also grown in its ability to handle more complex transactions and has been able to apply the experience to its other operations. "We've also purchased lease portfolios from clients who've decided to divest or leave the industry," he says. "With the knowledge we gain from servicing the assets for an extended time, it's often a much easier risk assessment when it comes to evaluating the portfolio purchase."

Asked if servicing the portfolios of other companies presents privacy risks to any party, all story sources said no. "In our case, we have two separate companies," says Schaefer. "Each is a separate entity with separate ownership and separate purposes. I could do servicing and leasing in one company, but it would be more confusing."

ECS and Beacon Funding are also separate companies. Says Lipski, "Although ECS Financial and Beacon Funding are sister companies, they operate as separate entities, allowing each to maintain the integrity of its databases. This is a core fundamental component in providing third-party services."

"When we launched our portfolio services, we built silos around our new portfolio-services clients," says Andries. "We set up security parameters to make sure all client data and customer data were secure, and configured things so that only clients could see their information and other clients could not. That was probably the biggest part of the initiative."

Deb Reuben, President of Reuben Creative, LLC, a Minnetonka, Minnesota-based technology consultancy specializing in the equipment finance industry, says the opportunities for finance companies with digital technology platforms are burgeoning. "If you think the about the life cycle of the lease and consider the possibilities for both machine learning and data analytics, you realize these could be applied at every part of the cycle," she says. Reuben cites collections as an example. "For years, companies have tried to make their accounting systems do collections, but it's a whole different paradigm," she observes. "Collections has a very heavy data component to it and is about analytics, about tracking data and managing queues of work. An equipment finance company with a digital platform could handle collections for other companies. Or documentation services or due-diligence services or fraud detection and prevention. You could spin off any element of leasing and offer it as a third-party service."

#### Thinking Critically

Pivotal to the thought process before offering any third-party service, though, is the decision about exactly what to provide. "When we started Orion First 20 years ago, we thought it would be a complete platform for anyone wanting to start an equipment leasing company," says Schaefer. "I thought we'd do everything—property taxes and so on. But there are so many facets of specialization and in the service business, it's about what you do best. Today our claim to fame is our ability to collect, because I owned a collection agency before I started Orion. So our value proposition is about helping others in the industry by keeping the quality of their portfolios great."

At Bank of the West, the value proposition for clients is increased control of their customers' experience, along with more adapted product offering and the ability to provide a competitive advantage to their parent company. "It's not a one-size-fits-all,"

says Gross. "We offer a customized partnership, a recognized name and best-in-class systems and services."

Another consideration for becoming a service provider: your company's ability to meet multiple goals and objectives. "If you're prepared to handle the dayto-day operations of multiple companies by providing custom solutions, then there are no drawbacks," says Lipski. "Staffing is key. Everyone needs to be dedicated, motivated, multi-faceted, departmentalized and completely professional so that the client knows the job will get done right the first time."

Andries agrees. "You need a workforce that is seasoned, hungry and prepared to take on challenges you didn't even know existed," he says. "People who are successful in these roles have a solid foundation of universal reporting and finance principles that guide decision-making and customer problem-solving."

Andries also advocates having a scalable and flexible infrastructure that can accommodate various lease product types, diverse niche industries and a range of ticket contract sizes. "Outsourcing services may not

> be a viable option for all equipment finance companies, depending on equipment

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type, credit profile, contract size, scale, staffing and control of the customer-experience factors," he says. "For example, providers who are particularly good at managing only prime credits may not be the best solution for managing a portfolio of sub-prime obligors. Evaluating each individual situation to determine feasibility is important." ≡

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