

IT investment crucial to leasing start-ups

Though it is a mature business, the container leasing industry continues to be affected by the process of consolidation. One view is that in order to be a global supplier to the major container lines, a leasing company now needs to control a fleet of 1M TEU or more.

The ongoing trend towards consolidation is illustrated by the recent absorption of the Gateway

fleet by Textainer and the acquisition of Unit Equipment Services (UES) by Hong Kong-based GrandView Development. Industry observers are now speculating whether other, larger lessors may be next in the firing line.

Against this background, however, smaller players continue to survive - and thrive - and the door is by no means closed to new entrants. Recent successful start-ups include Blue Sky Intermodal in

the UK and XINES in Germany.

Whatever the future may bring, what is certain is that new and existing companies alike can only continue to flourish providing they have access to funding. How often, though, do finance providers check that the lessors they lend to have robust systems in place to properly manage and track their assets?

And what are the systems issues in particular for new com-

pany start-ups and their financiers? These questions were put to a finance provider, a leasing company and a specialist systems supplier.

Bankruptcy protection

Looking at the issue from a finance perspective, a representative of a European bank providing specialist funds to the major leasing companies comments, "The industry is now quite mature and it is taken 'as read' that lessors have sufficient systems in place. Perhaps this issue has not had sufficient prominence when completing deals as it should have had.

"Historic events have caused lenders to take steps to ensure they are suitably protected in the event of a bankruptcy, although fortunately these systems have not needed to be tested recently.

"It is often assumed that the major liner operators that lease the equipment have sufficient back-up in place should anything go wrong. Most of the funding this bank provides goes to major lessors, whose own systems should validate clients prior to leasing to them.

"The lessor is seen as the buffer between the financier and the operator in the event that the latter suffers a bankruptcy."

Suitable systems

The issue of having suitable systems in place does seem to be especially relevant to smaller leasing companies and start-ups. Geoff Mornard, one of the founders of Blue Sky Intermodal, notes that there is now plenty of funding available, especially in Germany, where new KG funds have been encouraged to expand from ship finance into containers.

With these new funds, he observes, there appears to be less focus placed on any new company to demonstrate that it has suitable systems in place to manage billing and container tracking than that expected by the banks.

The banks and the established KG funds, says Mornard, are a different matter. With these institutions, it is critical to demonstrate that the right controls and operating systems exist before finance will be forthcoming.

Mornard also suggests that the process of applying for securitisation is even more rigorous and it is essential to demon-



Blue Sky invested in bespoke software at an early stage of its development

strate that robust software and systems are in place to control the customer billing process, money collection and container tracking.

Ideally, Mornard would like to see these rigorous controls applied by all investors, whether banks or KG companies. Blue Sky Intermodal, he says, invested at an early stage in its development in software from specialist provider Real Asset Management (RAM) to ensure the company had a good container tracking system in place, that its revenue controls worked and that financial systems were transparent.

Integral part

Container leasing software is "an integral part of the operational strategy in a leasing start-up," says Keith Hotston, who oversees operations and IT as part of the senior management team at Blue Sky Intermodal. While there are many products available to help with certain business processes, he explains, "the only tool to properly administer a fleet of containers is bespoke leasing software. With this, we are able to focus on using various technologies to automate our processes and develop new ideas to further streamline our operation.

"Starting out with a product that has scope for development also enables us to be creative, so that while we grow the company, we can continue to keep our resources to a minimum, thus improving profits," Hotston says.

Blue Sky migrated to RAM's software from a "less superior system" that it had been using for a year beforehand, explains Hotston. "We allowed ourselves enough time to establish what we needed from a system, although we all had previous knowledge of what to expect, and in doing so we were able to create a specification for our requirements. The timing of our procurement and implementation was at the right level to ensure that we could comfortably populate the system with historical data without creating the usual nightmares that are often associated with systems migrations."

Deadly delay

It is not unknown for start-ups in the term lease business to delay investment in a proper leasing system until faced with the administrative challenge of managing the first wave of boxes coming off-hire. This is not an approach that Hotston would advocate. "Our philosophy has always been to implement a system that we can grow into, rather than outgrow a system and be forced under pressure to switch."

Hotston explains that in setting up its RAM system early in the business cycle, Blue Sky's activity was limited to creating new standing data (leases, containers, depots etc) and processing on-hires, as well as migrating existing data from the previous system.

"This was a manageable task, but still not to be underestimated because there is an element of ongoing billing, parallel entry and reconciliation to be considered during this time. The go-live process was well planned but nevertheless was also a varied and complex task.

"To consider repeating the same task with the additional implications of off-hire, M&R and various other activities associated with master leasing is something that could potentially lead to real problems. I'm sure it's been done before, but no doubt it would be far more time consuming and require much more resource and detailed management," Hotston says.

IT issues

Having worked with a number of dry freight container leasing start-ups in Italy, the Far East, Germany and the UK over recent years, RAM has had plenty of opportunity to gauge the issues and concerns involved in IT investment. "Usually as these are quite small companies and in start-up mode, they are reluctant to commit to the overhead of a dedicated IT person. Often it is the person that appears to know more about IT than his colleagues that takes on the responsibility," observes RAM's managing director, Keith Dolby.

Among other factors, Dolby attributes RAM's success in securing start-up clients to the fact that it does not simply sell software but also provides software and process consultancy to "look at clients' operating procedures, clean up their server and provide back-ups."

Lack of familiarity with IT can also make start-ups nervous about committing precious funds to outsourcing specialist IT versus other business priorities. RAM's job is to overcome such concerns and it deploys a range of measures to achieve this, including reference sites belonging to other clients and, perhaps more importantly, the option to "try before you buy" on a leasing package.

Dolby explains that once the client is happy that the system gives them what they want, they then have the option of a purchase lease. "Given that our clients are leasing specialists, not IT specialists, this flexible approach is vital to create comfort," he says.

In previous times, when the industry suffered a series of bankruptcies, staff salaries and redundancy payments were often early casualties of the process. As a consequence, the more entrepreneurial container logistics managers would depart with a print-out of all of the container locations around the world and then sell this information on to the respective leasing companies.

Perhaps Mornard is right, therefore, when he suggests that the rigorous controls applied by banks should be adopted by all investors. □