

QUALITATIVE MARKETING RESEARCH REGARDING THE IMPACT OF THE CRISIS ON THE ACTIVITY OF THE LEASING COMPANIES

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ABSTRACT: *The financial crisis has caused the economic system both direct and indirect effects. Negative macroeconomic shocks have had a direct impact on the results of leasing companies, and effects such as panic and "nervous breakdown" also had major repercussions. The purpose of this paper based on a qualitative marketing research is knowing, on the one hand, the effects of the crisis on the consumption of leasing products/services and, on the other hand, the factors that caused these effects. The study also aimed to outline the possible evolution of the leasing services offers over the next three years, taking in consideration the measures taken by leasing companies in order to restart the financing process through this system.*

KEYWORDS: *crisis; leasing market; in-depth semi-directive interview; finance.*

JEL CLASSIFICATION: *M31; G14.*

1. INTRODUCTION

Holding an important position in the modern economy, *the leasing made possible the meeting, in the same market, of the capital owners with those who need it in order to streamline their activities* (Vintilă, 2004, p. 1). In this context, the relations between the parties involved were strictly regulated both in legal and fiscal terms. However, the manifestation of the first effects of the economic – financial crisis generated the restriction of the activity of capital users and implicit, the suspension of the leasing contracts, creating large imbalances in the management of the bidding companies.

This paper shows, on the one hand, the implications of the crisis on the behavior of consuming the leasing products and services, and on the other hand, the

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strategic measures adopted by the leasing companies in order to reduce the number of non-performing contracts and to revitalize the financing activity. Beginning with the second section there was presented some theoretical aspects specific to the leasing sector and in the third one there was made an analysis of the Romanian leasing market. The fourth and the fifth sections include the objectives, the methodology and the synthesis of the marketing research results.

2. DEFINING ELEMENTS OF THE LEASING

Leasing is a commercial and financing form through which specialized financial companies or even producers rent the goods to customers who don't have sufficient own funds to buy them or have to borrow themselves to make those acquisitions (Ciobanu, 1997, p. 224).

From a legal perspective, leasing means a transaction through which one party, called the lessor or financier, send to another party, called user, for a certain period of time, the right to use a good in exchange of a certain sum of money, called lease rate (Nițulescu, 2008, p. 111).

At the end of the agreed period of using the goods, the financier committed himself to respect the user's option right to acquire the good property at a residual price, to extend the leasing contract or to terminate the contractual relations (Clocotici & Gheorghiu, 2000, p. 15).

In the recent decades, leasing has proven to be one of the most effective ways to finance investments in manufacturing sector and not only, providing high security to the capital holders (Georgescu, 2002, p. 271). Thus, he became an alternative preferred by 80% of the companies from developed regions, reaching to represent 70% of the "wealth" of these companies. The main reasons of using the leasing as a form of financing reflects that his philosophy refers to the fact that:

- the profit is generated by the effective use of the assets and not by their ownership;
- the ownership by companies of old or obsolete equipment is, in most cases, a real disadvantage;
- the obtaining of the right of using modern and performant equipment, with minimal capital investment, leads to the increase of the business volume and implicit, of the activity, leading, ultimately, to a higher level of profit.

The analysis of leasing operations indicates that there are 4 categories of leasing, namely: financial leasing, operational leasing, direct leasing and leaseback.

3. THE CHARACTERISTICS OF THE ROMANIAN LEASING MARKET

In response to the first signs of the economic crisis, the Romanian leasing market recorded, in 2009, a decline of 72% in comparison with 2008, reaching 1.33 billion euros, a value also registered in 2004. The largest decrease occurred on the equipment segment, registering a decline of 75.9% in 2009 in comparison with 2008 and representing, in terms of value, only 261.16 million euros compared with 1.082 billion euros, value recorded in 2008. Also, the financings of vehicle acquisitions have

experienced a bigger decrease than the market average, respectively with 75.2%, totalizing only 839.6 million euros compared to the 3.38 billion euros in 2008.

Also, in 2009, the real estate leasing decreased with 33.9%, reaching to 232.65 million euros, compared to the 351.84 million euros from 2008. The financings of the real estate sector were dominated by the category of industrial and commercial buildings with a total of 36% and by that of office spaces class A, B and C, with 26%. The financings of lands represented 4%, while the remaining 34% went to hotels, residential and apartment buildings. (Zilișteanu, 2010)

From the total of financings, 91% were attracted by corporate clients, 8% by the retail component, and 1% by the public sector. Regarding the duration of the leasing contract, the most common periods were: over 5 years – 26%, between 4-5 years – 24%, between 3-4 years – 23%, followed by these intervals: 2-3 years – 18%, 1-2 years – 5% and 1 year – 4%.

In 2010, the leasing market registered a decrease of 14%, reaching the value of 1.12 billion euros. Most of the financings were used for the vehicles acquisitions, 61% of them being used for buying cars, 15% for light commercial vehicles, 23% for heavy vehicles and 1% for other types of vehicles (Iacob, 2011).

In the real estate sector there were both increases and decreases in comparison with 2009. Thus, the financing for the office spaces rose to 37% vs. 26% in 2009 and those from the retail outlet category at 31% vs. 21% in 2009. Significant financing reductions were recorded for industrial buildings (17% vs. 36% in 2009) and hotels (to 1% from 6% in 2009).

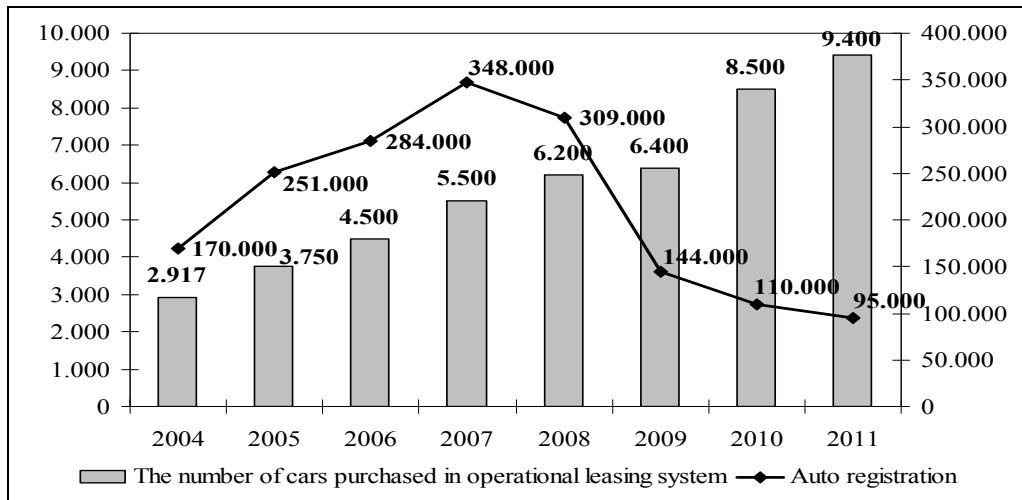
In 2011, the Romanian leasing market reached 1.35 billion euros, up 20% over the 2010 level. The members of the Association of Financial Companies (ALB Romania) funded assets totalizing 1.24 billion euros (92% of total), and affiliated companies – 107 million (8%). (Dumitrache, 2012)

The leasing companies – subsidiaries of banks held the largest market share, namely 67% of the total, being followed by captive companies (19%), respectively, by independent companies (14%).

The evolution of the financings used in the transport industry shows maintenance of the relatively constant share of the main vehicles categories, but also a slight increase in the case of heavy commercial vehicles. Thus, the car segment held a share of 57%, that of heavy commercial vehicles – 29% (with 6% more than the value registered at the end of 2010), light commercial vehicles category – 13% of the total, and the other types of vehicles – 1%.

Overall, the financing for the automotive segment recorded a value of 917 million euros in 2011, up from 2010 when they totaled only 712 million euros.

The evolution of the number of cars purchased in operational leasing system, compared with the total number of auto registrations, shows, for the period 2004 – 2011, significant increases of auto purchases through leasing, till the first year of economic crisis, namely 2008, when the number of auto registrations registered a significant decrease (Figure 1).



Source: ASLO (2011) Meeting presentation –press, 18 October 2011, [Online], available at: <http://www.aslor.ro/statistici>, [Accessed at: 20 February 2012]

Figure 1. The number of cars purchased in operational leasing system, compared with the total number of auto registrations (2004 – 2011)

In 2011, the financings of the equipment used in various economic sectors registered a positive development. Thus, the construction sector had a share of 19%, up 6% over the 2010 level, electrical equipment sector had a share of 10%, compared to 4% in 2010, and the agricultural sector recorded a considerable advance from 8% to 24%. Corporate clients have attracted the largest share of total financings (96%), followed by the retail component (3%) and public sector (1%). In terms of the financing period, in 2011 the most common period was 4-5 years (24%), followed by 3-4 years (22%), 2-3 years (21%), over 5 years (19%), 1-2 years (9%) and 1 year (5%). (Stanciu, 2012)

According to the forecasts of Financial Companies Association (ALB Romania), in 2012, the Romanian leasing market will keep an upward trend, the advance being of 10-15%.

4. THE OBJECTIVES AND THE METHODOLOGY OF THE LEASING MARKET RESEARCH

In order to identify the main factors that led to constant changes of the leasing market, in the period October – November 2011 there was made a qualitative marketing research, among eight managers of leasing companies from Brașov. Five of the sampled companies were leasing companies – subsidiaries of banks, two of them were independent companies and one company was captive to a car dealer. The purpose of this qualitative research was to identify the opinions of these managers regarding the impact of the economic – financial crisis on the leasing market. From the multitude of the techniques of qualitative research method it was chosen the *in-depth semi-directive interview*.

Regarding the objectives of the qualitative research, they were set in order to allow knowing in detail the opinions of the managers of leasing companies about the mentioned aspects. In this respect, the major objectives were focused on:

- the effects of the crisis on the consumption of leasing products/services;
- the measures taken by leasing companies for restarting the process of financing through the leasing system;
- the managers' opinions regarding the possible development of the leasing services offer, over the next three years.

In the next section there was presented a brief content analysis of the results of *in-depth semi-directive interview* conducted among managers of the leasing companies.

5. THE IMPACT OF THE ECONOMIC – FINANCIAL CRISIS ON THE LEASING MARKET

The effects of the crisis on the consumption of leasing products/services.

The economic – financial had a major impact on the activity of leasing companies, materialized mainly in the reduction of the number of concluded contracts. This effect was due to the fact that the financings for the auto sector dominated the portfolios of leasing companies and the decreasing of the demand for these financing significantly has affected the most financiers, given its high exposure to this segment. In addition to the decrease of sales volumes, most of the managers have identified other effects of the economic – financial crisis, such as:

- the increase of the number of non-performing contracts, with the consequence of increasing the number of repossessed goods;
- the increase of the number of ongoing contracts in which was required to reschedule the leasing rates;
- the change of the new customers' behavior, not only in terms of increasing their vigilance when signing the contract, by carefully checking the contractual clauses, but also in terms of trying to negotiate the cost of financing;
- the change of the customers' behavior, who already have contracts in progress, in the situation of having difficulties in paying the rates, some of the customers who have ceased to comply with the contract terms and the payment terms have presupposed that the leasing company was not interested to recover the property because the fleet size increased significantly in the recent years.

The measures taken by leasing companies for restarting the process of financing, through the leasing system. The main measures taken by most managers interviewed, in order to decrease the number of non-performing contracts and subsequently to restart the process of leasing financing referred to:

- the development of certain measures of prudence; this aspect does not refer to the necessity of a larger number of documents to be examined, but to the intensification of checking the potential users, after receiving the requests for financing, in various databases such as:
 - CCRR (Central Credit Risk Register) for individuals and corporate customers and PIR (Payment Incidents Register) especially for legal entities;
 - the database of National Tax Administration Agency (NTAA);

- the databases of lawsuit processes of the jurisdiction where those companies seeking for financing have their headquarters;
 - the Insolvency Bulletin;
 - the Register of Commerce, in order to determine if the shareholder who requests the financing owns other companies, these also having to be checked in the Insolvency Bulletin.
- the removal of certain leasing products from their offer, such as financing with zero down-payment or offers for newly established companies;
 - the strengthening of the process of recovering the debts, in the conditions of increasing the number of non-performing contracts and the organizing of an efficient exploitation of the park of goods repossessed.

A few managers considered as essential the review of internal procedures of leasing companies by introducing new work procedures and implementing additional control of costs.

The possible development of the leasing services offer, over the next three years. Regarding the possible development of leasing services offer, over the next three years, the opinions of most managers converge to retain the existing users, but also to attract new ones by:

- promoting certain offers designed in collaboration with the insurance companies in order to reduce the costs incurred by the users for the good insurance;
- launching new leasing products, such as fixed-rate products, products denominated in domestic currency in order to avoid the exchange rate differences and refinancing without granting fee;
- drawing up different campaigns and promotions for individual consumers;
- designing new promotional campaigns for the clients of auto market, based on a return to growth in the automotive sector;
- rethinking the bonus schemes in order to stimulate the sales representatives from showrooms.

The managers of the leasing companies – subsidiaries to banks will focus on the taking over the customers of the bank to which the leasing company is affiliated.

A few respondents have proposed the identification of new economic sectors where economic growth is expected to generate increased financing requirements and therefore the possibility of creating partnerships with the suppliers from those sectors.

On the other hand, taking in consideration the appearance of changes in the behavior of the buyers of leasing products, in the sense that a small number of them are approaching the leasing companies only for information, some managers intend to rethink the promotion strategy through strengthening the sales force of the companies, represented by sales agents who will get in contact with the potential consumers. However, the same managers pay a bigger attention to the virtual meeting with consumers, the customers could immediately know the conditions of obtaining the financing through the websites of the leasing companies.

Some managers consider that the individuals' market represents an uncovered niche. This is because, currently, individuals don't have enough information about the leasing system, which is a cheaper form of financing than the credit, regardless of the value of goods for which financing is requested. Thus, if the asset value is below

€10,000, the loan interest is bigger because it is treated as personal loan, and if the asset value is above this limit, the loan interest is lower, but there are required additional guarantees which significantly increase the cost of financing. Also, individuals should be advised that although in the payment schedule the leasing companies present the monthly cost of leasing by highlighting the capital rate + interest + VAT + CASCO insurance, unlike the banks which show only the rate and VAT, this doesn't mean a higher cost of leasing, but a clearer evidence of the amount that has to be paid monthly. The rate calculated by the bank includes the interest charged by it, and the CASCO insurance, which isn't charged on loans without mortgage, is found in the higher interest practiced by the bank, but not highlighted separately.

Another opinion, a singular one, is that those leasing companies which will choose cheaper sources of refinancing such as issuing bonds will benefit of a competitive advantage in the future.

6. CONCLUSIONS

The results of the qualitative marketing research confirmed the statistical data which showed that the economic – financial crisis had a major impact on all leasing companies regardless of type and size. This was felt especially in terms of lower sales volume.

Until now, the leasing companies have undertaken several measures to relaunch the process of financing, the most important being: the increasing of prudence, the removal of certain leasing products from their offer, the strengthening of the process of recovering the debts and the review of internal procedures of leasing companies by introducing new work procedures.

Taking in consideration the appearance of some important changes in the behavior of the buyers of leasing products and services, most of the specialized companies aimed at developing and implementing a new promotion strategy in order to strengthen the sales force. However, a bigger attention is paid to the virtual meeting with consumers, the customers could immediately know the conditions of obtaining the financing through the websites of the leasing companies.

The opinions of the managers interviewed may be concluded in the fact that the offer of the leasing companies is dominated by the purchase of vehicles by individuals. It can thus be said that the orientation of the Braşov consumers is prevailed by the individual consumption and not by the purchase of equipment which represent an investment that creates jobs and a real source of development. In this context, leasing companies should be concerned with finding ways to stimulate the purchases of equipment, systems and tools to the development of the investment process, considering the fact that leasing has proven to be an effective method of financing for productive investments.

Besides the fact that leasing is a viable alternative to conventional loan, it also can be a way to remobilize the immobilized capital, referring to lease – back operations which are found only in the offer of a few leasing companies. Therefore, leasing companies should diversify their offerings through introducing this type of operation in order to increase the sales volume.

The strengthening of the leasing sector by increasing the number of contracts based on a diversified offer of the leasing companies, namely through a better promotion of the services of these companies, encourages, indirectly, the production of goods that are the object of the leasing contracts, leading to the development of certain sectors of activity. Therefore, leasing may be considered a real mean to revitalize the economy.

Despite the specific limits of this qualitative research, such as the small number and the short duration of the interviews, the impossibility of extrapolation of the results to the population studied, due to their unrepresentativity, the analysis of the responses provided by the interviewed managers led to the conclusions, that constituted a reference point in the efforts of deepening the theme by designing a quantitative research. Thus, the results of the in-depth semi-directive interviews realized among the managers of the leasing companies from Brașov offered important information, which correlated with the results of the ongoing quantitative marketing research, among the potential and effective customers, can be used successfully for the substantiation of the marketing policy and strategies, in the context of the current market strongly affected by the economic – financial crisis.

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