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# **Canon Financial Services, Inc. The Systems and Methods Committee**

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*Canon Financial Services, Inc. (CFS, [www.cfs.canon.com](http://www.cfs.canon.com)) is a wholly owned subsidiary of CANON USA. Originally, an independent office products leasing company, CITI-LEASE, founded by Albert Smith who remains the president, CFS has grown to be an important financial arm for the U.S. Canon copier and office products business. Since CITI-LEASE was acquired in 1990, the operation has grown dramatically. In 1996, CANON USA recognized CFS as one of its premier divisions. A key success factor for this growth has been the strategic management of information within a corporate framework of outstanding customer service. The strong leadership of Smith and his organization as well as the commitment to information technology resources has fueled this explosive growth.*

*In this case study we will first examine the structure of the copier and office products leasing industry. Few businesses find it desirable to purchase copiers, fax machines and other computer equipment. There are several reasons for this, not the least of which is the flexibility of capital in light of rapidly changing technological capabilities of the products being leased. The complex relationships of CANON dealers, independent dealers and service organizations, customers, credit reporting agencies, banks and CFS will be described, especially with respect to the complex flows of information necessary to complete the leasing application and contract tasks.*

*Having established the industry basis we will describe CFS's organizational structure and how information flows within the organization and among external organizations. The information technology infrastructure will be presented along with a brief history of the issues leading up to the current state of this structure. For example, the requirement to outsource the basic lease maintenance software will be examined in detail, especially from the point of view of this decision's impact on strategic flexibility.*

*The main focus of this case study will be the steering committee charged with*

*addressing the information technology issues throughout the organization. The Systems and Methods Committee includes representatives from each of the departments and is chaired by the manager of information systems. Perhaps most striking about this organization is the role the president plays within the committee deliberations. The key players within the committee will be presented along with their comments about the committee operations. We will then place the reader at a point in time with a number of issues currently being addressed by the committee. A summary of the activity with respect to these issues will be presented. The reader will be asked to examine the issues and make a recommendation for a course of action for a new problem presented to the committee.*

## **THE COPIER AND OFFICE EQUIPMENT LEASING INDUSTRY**

Large and small business alike are faced with the daunting task of maintaining an efficient and up-to-date array of office machines. Once upon a time, the office manager placed a single call to IBM or Remington Rand and all manner of office equipment from manual typewriters to mainframe computers would appear. The equipment could be purchased or rented depending upon the needs of the customer. Arrangements were made either through the supplier or the company's banker. Today, the situation is much more complex. There may be dozens of vendors for a single item and many more options for financing the purchasing decisions. Nowhere is this more evident than in the copier and office equipment industry.

The copier industry has grown dramatically since Xerox lost its monopoly on the xerographic process. Much of this growth has been driven by technology advances from Asian rim countries. What was once a completely domestic industry tightly held by Xerox, IBM and a few others, is now spread over a multitude of companies. One in particular, CANON, has been at the forefront of this industry as may be demonstrated by their high level of patent activity. Over the last ten years they rank only second to IBM in the number of U.S. patents obtained. An aggressive approach to the development and marketing of these products is evident. Their marketing has had a national focus, with strong distribution through wholly-owned marketing subsidiaries and smaller independent dealers. See Figures A and B for a statistical summary of Canon's recent growth, and their Web site ([www.canon.com](http://www.canon.com)) for a more extensive review of this growth.

But it takes more than quality products to sell copiers and other office equipment. Businesses must make careful resource allocation decisions every day, decisions balanced by the needs for flexibility and efficiency. One of the most frequently used methods to address this issue is the use of third-party financial sources to fund the purchase and maintenance of needed equipment through a true lease or lease-purchase arrangement.

A lease is a non-cancelable rental contract between a financial services provider (the "lessor"), such as Canon Financial Services, and the customer (the "lessee"). The lessee agrees to pay a specific dollar amount in rental payments for a fixed period of time (the "term"). At the end of the term, the lessee may exercise an option to purchase the equipment, may return the equipment, or may continue to rent the equipment.

There are a number of purchase options available in equipment leases. A "fair market value" purchase option is determined by the selling value of the equipment at lease termination. The purchase price is not determined at lease inception. This option usually has

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