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Private-label financing of forestry and agriculture equipment in Finland and Estonia

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Tiivistelmä/Referat — Abstract

Companies finance the equipment investments more often with financial products such as hire purchase and leasing. Simultaneously, the manufacturers as well as the retailers have implemented financial solutions under the own brand. The phenomenon is a market driver that affect the entire value chain. The purpose of the research was to conduct an in-depth review of the business by observing and understanding the motives, benefits and challenges behind private-label financial services. Moreover, the effects of the solutions on sales are assessed from the three key stakeholders' perspective. The industrial focus is on the current market situation of agriculture and forestry machinery, which traditionally are pioneers in these solutions. Additionally, a country comparison is done on primary data level.

The research method is qualitative, which is the most suitable approach for business-related topics with modest prior research. The source of the primary data was interviews with eight managers representing financiers, manufacturers and retailers within this business. A thematic analysis was utilized with five pre-selected themes that formed also the interview framework.

According to the findings, the private-label financing has been successful for all involved stakeholders. From the vendor's perspective, the private-label solutions are mainly used either to earn from the generated finance portfolio or as a manageable sales tool utilizing the brand value. For the financier, the services are rather profitable, since often, the manufacturers offer funds to lower the price of financing below competitors' levels and additionally, the co-operation offers an exclusivity to the finance deals. In the future, these solutions seem to increase, because the financing is becoming a more important part of the sales.

Along with the motives and benefits, the paper aimed to explore the co-operation and the effects on sales. The results indicate that the commitment of the partner is a focal part in the co-operation. The manufacturers and retailers are also demanding on the service level. For the financier, the risk-sharing, funds and exclusivity are key factors. The evidence given, the private-label financial solutions affect the direct sales and the sales work positively. Here, the standardized products and terms are important.

Overall, the key stakeholders are in general rather satisfied with the solutions and all the respondents depicted interest to develop them further. However, a few challenges were extracted such as the unsophistication of the sales force, commitment of the partner and resources in terms of service and product level.

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private-label financing, hire purchase, leasing, agriculture and forestry equipment

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Tiivistelmä/Referat — Abstract

Yritykset rahoittavat laiteinvestointeja yhä useammin osamaksu- tai leasingrahoituksella. Laitevalmistajat ja jälleenmyyjät ovat tuoneet markkinoille brändättyjä rahoituspalveluita, joissa hyödynnetään omaan brändiä, mutta rahoitus tulee kolmannelta osapuolelta. Kyseinen ilmiö on selkeä markkinoita ohjaava tekijä, joka vaikuttaa koko arvoketjuun. Tämä tutkimus pyrkii luomaan syvällisen katsauksen ilmiöstä havainnoimalla ja ymmärtämällä brändättyjen rahoituspalveluiden motiiveja, hyötyjä ja haasteita. Lisäksi palveluiden vaikutuksia myyntiin arvioidaan kaikkien kolmen pääsidosryhmien näkökulmasta. Tutkimus keskittyy maa- ja metsätalouskoneiden brändättyihin rahoituksiin, koska alalla on rahoituksissa pitkät perinteet. Sen lisäksi tutkimus tuo esiin Suomen ja Viron markkinoiden eroja ja yhtäläisyyksiä.

Tutkimusmenetelmä on laadullinen, koska se sopii parhaiten liiketoimintaan liittyvään tutkimukseen, josta on vähän lähtötietoja. Ensisijaisena tietolähteenä ovat haastattelut, jotka suoritettiin yhteensä kahdeksan rahoittajien, valmistajien ja jälleenmyyjien edustajien kanssa. Haastateltavat edustivat vähintään keskijohtoa. Data-analyysi tehtiin teemoittelemalla, jossa hyödynnettiin viittä teemahaastatteluja varten muodostettuja teemoja.

Tulosten perusteella brändätyt rahoituspalvelut ovat hyödyttäneet kaikkia kolmea sidosryhmää. Myyjät, eli jälleenmyyjät ja valmistajat, käyttävät brändättyjä rahoituspalveluita pääsääntöisesti joko saavuttamaan tuottoja luottokannasta tai hyvin hallinnoitavana myyntityökaluna. Rahoittajan näkökulmasta palvelut ovat hyvin kannattavia, koska valmistajan tarjoamien korkotukien avulla rahoituksen hinta laskee kilpailijoiden hintoja alemmaksi. Sen lisäksi yhteistyö usein mahdollistaa rahoittajalle yksinoikeuden myyjän kautta tuleviin rahoituksiin. Tulevaisuudessa kyseisten ratkaisujen määrä näyttää kasvavan, koska rahoituksesta on kehittymässä vielä tärkeämpi osa kaikenlaisten koneiden myyntiä.

Motiivien ja hyötyjen ohella, tutkimuksen tarkoituksena oli tutkia ratkaisujen yhteistyötä ja vaikutuksia myyntiin. Tulokset osoittavat, että partnerin sitoutuminen on keskinen osa yhteistyötä. Valmistajat ja jälleenmyyjät ovat tulosten mukaan hyvin vaativia palvelutasosta. Rahoittajalle tärkeitä tekijöitä yhteistyössä sen sijaan ovat mahdollisuus riskinjakoon, korkotukeen ja yksioikeus rahoituksiin. Brändätyt rahoituspalvelut ovat vaikuttavat sekä myyntiin että myyntityöhön positiivisesti, mihin ovat vaikuttaneet brändättyjen rahoitusten standardimaisuus.

Sidosryhmät ovat yleisesti hyvin tyytyväisiä brändättyihin ratkaisuihin ja vastaajat olivat kiinnostuneita kehittämään palveluita jatkossakin. Tulosten perusteella ongelmakohtia ovat kuitenkin myyjien osaaminen, partnerien sitoutuminen ja resurssit palvelu- ja tuotetasolla.

Avainsanat — Nyckelord — Keywords
brändätyt rahoituspalvelut, osamaksurahoitus, leasing, maa- ja metsätalouskoneet

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Table of contents

1 INTRODUCTION

1.1 Background

Hire purchase and leasing have increased their popularity as a source of external financing for European companies. The leasing products have become the second most popular source of external financing for the European companies (Kraemer-Eis and Lang 2014). Since 2008, the overall economic situation in Europe has been stagnant until recently, when investments have begun to develop positively. In Finland and Estonia, especially machinery and equipment investments cover up to 50% of the total growth. Often, these investments are financed using leasing or hire purchase, which allow companies to schedule costs and save collaterals. From 2015 to 2016, the number of new leasing contracts rose the fastest among the agriculture and forestry companies in both countries (Bank of Finland 2017, Estonian Leas…2017) and these companies also form the largest customer group in equipment financing (Oxford Economics 2015). Traditionally, the manufacturers in this sector have been pioneers in captive and private-label financial services.

The rise of leasing has dangled new operators to the equipment finance market. During recent years, several equipment manufacturers have entered the European market with their own financial services. In literature, this is called *captive financing*, which relates to a subsidiary company that aims to finance the parent company's sales. When this is executed using a third-party financier as a partner, it is called *private-label financing*. Unlike in Europe, captive financing has a solid status on the U.S market (Equipment Leasing & Fin… 2017). Currently, global manufacturing companies seem to prefer private-label financing over establishing a subsidiary especially on smaller markets, e.g., in Finland and Estonia.

Private-label financing is one of the key market drivers in the equipment finance business. On one hand, it intensifies the competition between the financiers, and forces them to react to the market development. On the other hand, the end-users might experience the evolution as a decrease in options, since the manufacturers aim to control the retailer to prioritize only the manufacturer's services, which is already widely witnessed in automotive business (Nextcontinent 2016). Nowadays, the so-called "one-stop-shop concepts", which gather different services such as financing, service and insurance under one roof, are getting more popular. Private-label financing seems to be an important part of these turn-key services.

The growth in equipment finance is supported by both supply and demand. Firstly, the overall economy is recovering in Europe. Secondly, the customers, SME's and large companies, are increasingly interested in leasing and hire purchase financing as a source of external financing (Oxford Economics 2015). Moreover, studies have shown the benefits of captive financing for parent companies in terms of higher sales prices and enhanced competitiveness (Bodnaruk et al. 2016, Murfin and Pratt 2014). Despite of these studies, research on private-label financing in heavy equipment does not exist and so, also their benefits and motives are unclear. The lack of knowledge and the overall effects of private-label financing on the value chain make it an interesting and relevant topic to study. Besides, the observed markets differ significantly from each other, which may lead to a versatile comparison.

In the theory part of this paper, the literature is studied. Firstly, the relevant previous research is analyzed. Secondly, the financial products are briefly clarified to the audience with the focus on their differences and specific features. Thirdly, a market research of equipment financing will be conducted. The analysis begins with Europe, since both countries are traditionally strongly dependent on the European market. Then, the analysis moves to a more detailed analysis on country level. This part aims to find out the latest trends in financial products and their sales. The theory part supports the researcher to determine the interview questions, which are the backbone for the final research questions (Eriksson and Kovalainen 2008:79).

1.2 Purpose of the study

The purpose of this research is to conduct an in-depth review of private-label financing in Finland and Estonia. With the overview, the study intents to gain an understanding of motives, benefits and challenges behind the business, and to find out the current and future trends from the key stakeholders' perspective. Moreover, a more particular focus is on the partnerships between the stakeholders and on the effects of private-label solutions on sales and sales work, which are substances in this entity. An important focus will be on the current market situation considering forestry and agriculture machinery.

Furthermore, the research compares two countries, Finland and Estonia, with the purpose to extract country-specific characteristics. The comparison is conducted using both primary and secondary data. In addition, some sector analysis is done comparing agriculture and forestry in the countries. Often, agriculture, forestry and fishery are reported in statistics as one unit, which might cause some bias and hinder the analysis between agriculture and forestry. Still, agriculture is often closely related to forestry and vice versa.

Through this pioneer study, current and future operators in this business area will be provided with a specific and wide overview of the motives and benefits of private-label financing. To achieve this, the whole value chain, including manufacturer, financier and retailer, is studied.

At its best, the results will support operators already in the market and the ones entering them to either enhance or adjust their business operations. As for the public, it might help the end-users to understand the current market trend. The study aims to provide answers at least to following research questions:

1. What are the observed benefits in private-label financing compared to traditional vendor financing?
2. What is expected from the future in terms of private-label solutions?
3. How does private-label financing affect the sales of machinery and financial products?
4. What is important in terms of partnership between financier, manufacturer and retailer?

2 THEORETICAL FRAMEWORK

2.1 Literature review

So far, similar research on private-label financing, with a focus on heavy machinery in Northern Europe, is not known to present author. In the U.S, captive financing has been studied extensively, but there, the focus has been more quantitative (Bodnaruk et al. 2016, Earlier, Murfin and Pratt 2014). Still, captive financing differs from private-label financing in terms of ownership of the financial services. However, previous research is relevant for this study as well, because in both cases the brand is visible to the end-customer. In Finland and Estonia, the phenomenon is relatively new, and it affects only a limited amount of corporate customer, which is presumably why no previous studies are found.

In 2016, a U. S study by Bodnaruk et al. (2016) studied the correlation between captive finance and firm's competitiveness. The study showed that the firms with a captive profit significantly from own financial services. A captive seems to improve the parent company's competitiveness in several ways. For example, it increases the market share and decreases the sales volatility. However, the effects are observed as late as after four years, and the studied companies were rather large with less direct competitors. Still, the study suggested that captives bring even 17% of parent's overall profits. The study was done in U.S, which limits the adaptability of the research in this paper, since the U.S market is very much different compared to the European market.

Earlier, Murfin and Pratt (2014) studied the economic motives behind captive finance using an economic model. They found out that companies with a captive can produce less, but sell with higher prices. In addition, they noticed that products, financed by the captive company, lose their value slowly which improves the asset's pledgeability, and lowers requirements for high down payments. However, these benefits cannot be restrained, so other lenders can utilize these two phenomena as well. The model also showed that companies with week access to internal funds tend to prefer new and more captive supported machines. The welfare implication of the model points out that captive finance has a negative impact on consumer surplus while the price today is higher, and the production will be restricted. However, machines that mainly work as collateral, offer higher pledgeability. These results could be relevant for private-label financing, since the benefits are not limited to captive companies. In business, higher pledgeability, enables the financier to offer financing with lower down payments and smaller instalments. This increases the attractiveness of the financial product and it might also give financially weaker companies an access to external capital. At a certain level, this might explain a part of the popularity of the leasing finance.

In Europe, a qualitative market review by Nextcontinent (2016) was focusing on automotive financing, but the findings are relevant for this research as well, since many stakeholders operate on both automotive and heavy machinery market. The survey revealed that banks and captives, at a certain level, compete for different kind of customers. Where captives offer services for one specific brand, banks can offer fleet management without brand restrictions for large corporate customers. The study also argues that both captives and banks can coexist as far as commissions are paid to the dealer. Unlike banks, captives can benefit from the co-operation with the parent so that they can offer campaigns, such as extended warrants, exclusive discounts and service offers to customers. In addition, captives have access to the manufacturer's data, which can be utilized for instance in marketing.

The existing literature focuses mostly on the advantages and the obstacles of captive financing. However, according to Nevitt et al. (2000:188), manufactures gain some advantages using 3rd party financier compared to having a subsidiary company. The benefits, adaptable to Finland and Estonia, relate closely to enhanced cash flows to parent and vendor-friendly financial reporting. In addition, the high administrative costs of own subsidiary are avoided with this co-operation. However, the publication does not separate benefits between normal vendor financing and private-label financing.

Private-label financing bases on an agreement of branded vendor/customer interface. The additional agreements between the financier and the manufacturer, however, are manifold. For example, there are several methods how they deal with the credit risk. In some cases, according to Nevitt et al. (2000:190-191), the financier cannot take part in the credit decision at all but is provided with some guarantee from the manufacturer.

One approach is that all credits are graded, and the financier can protect themselves against the default with higher pricing, not only with the present value of the collateral. In another paper, Essenfield (2008) states, based on his experience in business on U.S market, that a private-label financier tends to accept more credit risk since the manufacturer agrees on risk-sharing. Risk-sharing is one of the key incentives for the 3rd party co-operation in this business, especially from the financiers' perspective.

The agreements differ also from the variety of products. They vary from a simple customer group product to a more strategic partnership. However, Essenfield (2008) claims that even a simple agreement is enough to be successful, because a deep co-operation might lead to obscurity in partnership objectives. Strategic relationships are also expensive to manage, he claims. Currently, heavy machinery manufacturers seem to prefer subsidiary companies in big European countries, and to co-operate with 3rd party operators in smaller markets.

Both, Essenfield (2008) and Nextcontinent (2016) emphasize the importance of the sales force in equipment financing. The sales force operates on the customer surface and creates the link between the customer and the financier. Often, they fill the credit applications, consult the customers and propose the financial solutions to the customer. However, like Essenfield states, the salesmen's priority is to sell the vehicle, not the financing. He states also, that the capabilities of the sales force are various, and the educations falls to the financier. This is very costly and unattractive from their perspective. In addition, the salesmen are served with monetary incentives. For example, Nextcontinent (2016) emphasized that the direct commissions paid to sales men enable the captive companies and the banks to co-exist. To conclude, the sales force appears to be the key factor in sales of both the equipment and the financing, but their sophistication is a challenge to the financier.

2.2 Financial products in equipment finance

There are two dominant types of leasing products in equipment finance. In this paper, their features are introduced briefly. From the general legislative perspective in the EU, hire purchase is considered as "supply of goods", whereas leasing falls within "supply of services". This categorization clarifies the chargeability of the value-added-tax (VAT), which however, is not always clear. (Council directive 2006/112/EC)

Simply, if a company purchases an asset, it can be financed by **hire purchase**, which is also known as *investment financing*. Alternatively, a company can also lease the asset for an agreed period. Leasing products used in equipment financing are the **finance lease** and the **operating lease**. Hire purchase and leasing have some remarkable differences, but as a matter of fact, the products are very equal from the lessee's point of view. The greatest differences relate mainly to accounting. Still, the legislative features of the financial products might differ on both company and country level. In business, the financial products are often tailored based on customers' needs. In terms of collateral requirements, in both financial products, the financed machine or equipment (the receivable) serves as collateral (Tepora, 2013).

In Finland and Estonia, most of agriculture and forestry companies are rather small enterprises. This means, that they report their bookkeeping using standards of the local accounting act. Only listed companies, which are only a few among these customers, must use IFRS-accounting, which affects the balance sheet treatment of leased equipment.

2.2.1 Hire purchase

Hire purchase or investment financing is a common way for a company to purchase an equipment. Briefly, it bases on a down payment, loan set-up costs, and instalments added with interest and invoice fee. In the transaction, the financier pays the difference between the purchase price and the down payment to the vendor. Here, the ownership transfers to lessor immediately, but the financier enjoys a quiet possession of the product as a warrant until the last instalment is paid (Tepora 2013). A hire purchase is a so-called full-payout contract, which means that the instalments total the purchase price.

Since hire purchase is considered as supply of goods, the total VAT is chargeable at the point of purchase. However, companies can deduct it in accounting and reclaim it in tax return (Council directive 2006/112/EC). In hire purchase, the buyer debits the asset into the bookkeeping as an owned asset, and the company is responsible for the capitalization of the asset and the recording of the liability. Besides, the company may depreciate the asset.

2.2.2 Finance lease

A leasing contract is classified as a finance lease if it transfers substantially all the risks and rewards of ownership (International Acc… 2015). Traditionally, a finance lease is long-term leasing of an asset, and it is an alternative to hire purchase.

In short, a finance lease bases on agreed amount of rent instalments and the residual value. In case of a residual value, the contract is a so-called non-full-payout contract, where the lessee pays only part of the purchase price during the lease. This enables the lessee to use the asset cheaper than in a full-payout contract (Bass and Hendersson 2000). However, it is based on an estimate, that the asset maintains its economic value. Some financiers might require a higher first instalment, but often, the product can be leased without any sort of down payment. At the end of the contract, the lessee should find a buyer for the machine or redeem it with the residual value if the contract contains a purchase option. The residual value should depict the value of the products after the leasing period.

In leasing, the lessor remains the ownership until the lessee or a third party redeems the asset at least with the contract's residual value. Small and middle-sized companies, that must not use IFRS-accounting, are able but not forced to report leases only in the income statement and so, leasing liabilities are excluded in the balance sheet. For large companies, according to International Accounting Standards (2015), the leased products are to be added to the lessee's balance sheet as an asset like in hire purchase.

In Estonia, the finance lease acts like hire purchase, since it is considered as supply of a good. This means that the ownership transfers to lessee after the last lease payment. Unlike in Finland, there, the accounting follows the IAS 17-standards (World Leasing…2015). This aspect might partly explain the different distribution of the financial products between Finland and Estonia.

2.2.3 Operating lease

Operating lease is often used for shorter needs for an equipment than hire purchase and finance lease. The lessee uses the asset in exchange of payments, and can return it to lessee at the end of contract based on a repurchase agreement between the vendor and the financier. Operating leases are mainly based on non-full-payout contracts. The lessee will not have an option to purchase the asset after the contract, but the vendor or any 3rd party operator redeems the asset. Therefore, operating lease is often called *rental*. In addition, operating lease is often combined with several services such as insurance and maintenance.

For non-IFRS companies, operating leases act like finance lease in terms of taxation and accounting. However, the new IFRS 16-standards, effective from 1st of January 2019, change the accounting of leasing liabilities from the lessee's perspective. Along with the new standard, companies, that use IFRS, must report operating lease liabilities in the balance sheet if the lease period exceeds twelve months or values over 5000 USD. Currently, operational leases have been off the balance sheet and they have been visible only as an expense item in the income statement (PwC 2017). This adjustment brings the operative lease liabilities into the financial statements and thus, affects the financial ratios. Hence, the new IFRS 16-standards is a significant accounting adjustment, which might have an overall effect on the popularity of the operating lease.

2.2.4 Case C‑164/16

From the legislative perspective, lease financing is considered as a supply of services whereas hire purchase is a supply of goods, which determines the tax payment. However, many finance lease contracts might include a purchase option, which brings the contract closer with hire purchase and blurs the tax treatment.

On 4th of October 2017, the Advocate General Spuznar of the Court of Justice of the European Union gave his opinion to case C-164/16. In the case, a company offered a mixed financial service called "agility" under a lease contract, which was unclear in terms of taxation. However, the customer had an option to purchase the vehicle after the contract with its residual value (42-48 %), and approximately 50% of the customers used this option. From the company’s point of view, the contract was a supply of services, but the local authority disagreed. According to Advocate General’s opinion, only contracts that certainly passes the ownership to the lessee are considered as supply of goods. (ECLI:EU:C:2017:734)

Even though the opinion is not yet binding in the CJEU, it might have several effects on the leasing market. The effects are related to VAT and accounting in terms of when the VAT is charged and who and how the asset is accounted. Especially, the financiers may have to reform the leasing terms.

2.3 Credit conditions for corporate investments

For agriculture and forestry companies, equipment and machinery purchases are often remarkable investments. Thus, the overall credit conditions are an important factor, that influence both demand and supply on the equipment finance market. Factors, that can be used to assess credit conditions, are several. Here, the development of gross domestic product (GDP), real investment growth, access to money, willingness to lending, and the level of interest rates are mainly used as reference. Firstly, the overall outlook in Europe is reviewed and secondly, the Finnish and the Estonian factors are respectively assessed. Both Finland and Estonia are members of the EU and the Economic and Monetary Union (EMU), which make them very dependent on overall development in Europe. Therefore, the credit conditions in Europe are assessed separately.

2.3.1 Europe

During the last decade, Europe has suffered from the European debt crisis started in 2008. Ever since, European markets have been stagnant until recently, when for example GDPs and investments have started to grow slightly. In addition, financial conditions as well as accessibility to finance together with the low interest policy have gradually stabilized the European financial markets. Still, many bottlenecks, such as high fragmentation between countries and inoperative capital flows cause problems. Even though the sights are positive, both real investment growth and investments share in GDP are lacking on pre-crisis level. (EIB 2016)

According to European Banking Authority (2016) stress tests, European banking sector has recovered well from the debt crisis, and it has become more resilient. The enhancing conditions can be observed for example from the CET1 capital ratios which reflect the strength of a bank's balance sheet. The weighted average CET1 was 13.2% in December 2015, which was relatively high compared to the end of 2010 (8.9%). Even though the results were delightful, the stress tests revealed significant differences between each banks resilience to shocks.

Companies in the EU have a good access to external finance. According to ECB (2017a) only 9% of the SMEs reported problems to obtain external capital. The external financing is currently in a slight increase, and the companies have reported to use it for fixed investments and inventory. At the same time, banks are increasingly willing to lend more at a lower interest rate (ECB 2017b). These results indicate a faster economic growth in the EU.

2.3.2 Finland

The Finnish economy has suffered from weak economic growth since 2008. Starting in 2016, the Finnish GDP has finally started to grow. The growth is supported by enhancing exports that grew 3% in Q2/2017, and increasing investments that grew even 10%. Especially in machinery and construction sector, the investments are booming. Also, the interest rates on corporate credits are currently on a very low level equaling the average levels in the European Monetary Union. (Bank of Finland, 2017)

According to European Commission (2017a), the Finnish banking sector is strong and stable. The lenders are well capitalized, but the market remains concentrated. Lately, corporate lending has increased rapidly. In addition, the report emphasizes the enhanced access of companies to external finance. Especially the SMEs have increasingly started to finance the investments, not only the working capital. At the same time, the number of companies with restricted access to bank financing has remained unchanged, totaling below 10%.

2.2.3 Estonia

The Estonian economy has grown only slightly after the crisis year in 2008. Since 2013, the investments have been stagnant, but starting from 2017, they are estimated to grow again. In 2016, the GDP grew only a percentage, which was caused by weak exports and investments. Estonia is facing several other issues such as low R&D levels and increasing labor costs. However, its fiscal performance is solid. (European Commission, 2017b)

In 2017, however, the economy has started to grow. Estonian GDP grew by 5.7% in Q2 compared to previous year and by 1.3% over the previous quarter. The growth is supported by the investments in transportation, construction, machinery and equipment. Also, the higher export prices had a positive effect on GDP, while the exports remained rather low. Machinery and equipment investments grew as fast as the GDP, which supports the levels from Estonian Leasing Association. (Bank of Estonia. 2017)

According to ECB (2016), also the Estonian banking sector is solid, reaching the highest Tier 1 ratios in the EU. Like in Finland, the market is rather concentrated, and it is mainly controlled by Nordic banks. Compared to EU and Finland, higher interest rates increase the credit costs for Estonian companies. The access to finance is on a good level, since the number of companies with restricted access to bank loans decreased slightly from 2014 to 2016 (ECB 2017a). Even though the companies have a good access to external capital, the demand on financing falls below EU average.

2.4 The equipment leasing market

The equipment leasing market consists of lessors and lessees. Here, the lessors are companies that are mostly related to banks but recently, some private-equity operators are also seen on the market. Lessees represent companies from all sizes. The assessment of the current state of leasing market is a necessary part of this paper, since the interviewees operate exactly on that market. Like in previous chapter, the focus is first on European level and then, more on country and business level. Last, the financiers' markets are assessed in both countries.

2.4.1 Europe

The popularity of the financial products increases in Europe among both SME's and large companies. The micro and small companies have even shown high growth rates. However, proportions of leasing use vary heavily between countries, business sectors and firm sizes. (Oxford Economics 2015)

According to Leaseurope (2017), new equipment leasing volumes grew by 317.9 billion (10.8%) in 2016 totaling 607.6 billion. The machinery and industrial equipment segment grew also by 52.1 billion euros, which is over 10%. The reported growth year was already the third in a row. UK, Germany and France are the largest leasing markets in Europe, but the highest growth rates are witnessed outside Central-Europe and the UK. An average leasing contract lasts from two to five years and values slightly below 30 000 euros. Even though these numbers do not cover all the market, they offer a realistic overview and are supported by other data sources.

The research of EIB (2016) estimates a future growth in lease financing. The paper found out that companies, at least on average, are not willing to change their financing mix in the future. However, they show an increasing interest in bank lending and leasing financing, which already are highly popular. Currently, the large companies use relatively more leasing and hire purchase financing and the popularity follows the company size. This is, however, coherent with other sources of finance, since large companies tend to have more versatile finance mixes compared to SMEs.

The reasons behind the growth are versatile. During the last years, several leasing companies have emerged, obstacles for crediting have decreased and the companies' creditworthiness has improved. Moreover, the intensified competition together with ECB's monetary policy, has lowered the interest rate for credit remarkably. At the same time, other collateral requirements have risen. Lease and hire purchase finances are both a suitable form of financing for SMEs. The rejection rate has remained low, which indicate lessors' willingness to offer leasing for SMEs instead of a bank loans. They are also considered equally good for companies with different growth expectations. This positive development is seen from the increased availability to hire purchase and leasing financing that companies have reported. Also, it can be observed from the increasing popularity of leasing as a source of external financing. (EIB 2016)

Even though the numbers show great growth rates, the regional differences are spectacular, and the market is rather shattered. In some parts of Europe, leasing is used only in every fifth SME, whereas the leasing category was the most frequently used external financing type in Estonia, Sweden, Germany and Latvia with percentages over 40. (Leaseurope and KPMG 2012)

The European SME's tend to use several channels to acquire leasing financing. The main sources for leasing finance in 2013 were vendor (78.9%), bank (58%) and lessor (40.4%). However, these proportions vary significantly between the studied countries. In the vendor channel, either the manufacturer or the dealer, provides the financing for the transaction. In most cases the vendor co-operates with a third-party operator or alternatively, the manufacturer has own financial services. (Oxford Economics 2015) Unfortunately, country by country data of Finnish and Estonian proportions does not exist. Still, these results can be at least directional.

2.4.2 Finland

The statistics of financial products have been discontinued after the largest bank, OP Financial Group, resigned from Finance Finland, which represent the banking sector in Finland. However, according to Leaseurope (2017) annual survey, the Finnish leasing market totals 9.7 billion euros (2015: 8.8), of which leasing covers 5,1 billion (2015: 4,7) and hire purchase 4,6 billion (2015: 4,1). The growth rates are high, in leasing the market grew by 7.3% and hire purchase by 11.7%. The total equipment leasing market totals 9.2 billion including both financial products. The source notes that these numbers represent approximately 80% of the Finnish leasing outstanding.

In 2014, according to Finance Finland (2015), the total outstanding of the Finnish banks on corporate customers in hire purchase and leasing was approximately 6 billion euros. The distribution on hire purchase consists of transportation (47.6%), machinery and equipment (39.5%) and other (12.5%).

In Finland, the inconsistency and the lack of data hinders the analysis. However, there is no evidence that the Finnish leasing market would not follow the overall trends observed in neighbor countries and in Europe.

2.4.3 Estonia

In Estonia, the total leasing portfolio totals 1.918 billion in 2016 (1,731 billion in 2015), which consists of finance lease (1,038 billion), operating lease (0,791 billion) and hire purchase (0,0461 billion). Machinery and equipment segment totals 0,519 billion (0,45 in 2015). (Bank of Estonia 2017)

2.4.4 Agriculture and forestry sector

Both agriculture and forestry sector are capital intensive industries. Therefore, a high proportion of these industries' machinery is financed by lease financing. Still, the key reason for not using leasing tend to be the willingness to own the asset (Oxford Economics 2015).

In total, agriculture and forestry sector covers only 3% of the total equipment leasing market on the European level, which, however, correlates with the proportion of industrial output (Leaseurope 2017). Still, the regional differences are wide. For example, according to Bank of Estonia (2017) statistics, agriculture covers almost 13% of the total leasing portfolio exceeding the market growth as well. In Estonia, the leasing outstanding of the agriculture sector totals 240,4 million in 2016, and the outstanding increased by 16,8% from 2015.

Compared to other industries, the greatest changes in leasing financing have been lately seen in agriculture and forestry. To emphasize, this sector used leasing financing less compared to other sectors in 2011, however, the proportion grew the fastest by 2013 including all sized companies. Furthermore, on the SME level the penetration rate was the highest among agriculture companies. Interesting is also that between 2011 and 2013, the penetration rate and the average investment size were booming. In 2014 about 20% of the investments were done using leasing in this sector. (Oxford Economics 2015)

2.4.5 The financiers

The leasing companies are divided into bank-related and private companies. On the European level, 50% of the companies are related to banks and the rest is divided into independent and captive companies (Leaseurope and KPMG 2012). Even though country-level data of the Finnish and Estonian distributions is not available, the share of bank-related companies is estimated to be higher, because of the rather juvenile and concentrated market. In this paper, bank-owned companies are considered as a part of traditional banking sector, whereas the private companies fall underneath the shadow banking system.

The leasing companies, which are owned by deposit banks and/or financing institutions, require authorization either from the domestic supervising authority or the European Commission. This supervision aims to protect the depositors, which are the main capital sources for the banks. (Financial Supervisory Authority 2017)

In Finland, the creditor's market had 274 operators in 2016. Most of them belong to larger bank-related amalgamations, of which the largest creditors are OP Financial Group, Nordea Finland Group and Danske Bank Finland. Together, they controlled 72.2 % (72.8% in 2015) of the market, which illustrates the market concentration. Unfortunately, the lack of data of financial products and their providers hinders the market analysis. However, the finance companies of the largest banks are controlling the leasing market in Finland, but lately, the competition has been intensifying.

According to European Commission's country report on Finland (2017a), the financial sector in Finland is stated to be solid. The strong state of the sector is caused by a high capitalization of the banks and the outstanding is good quality. The interest rates are record low and the lending to companies rises. The report, however, emphasizes the high concentration of the market and the high interconnection to neighbor countries, which might have a spill-over effect in stress situations.

In Estonia, the creditor's market consists of 50 companies. Bank related companies controlled about 80 % of the market in 2016. The largest creditors were Swedbank Liising, SEB Liising and Nordea Finance Estonia. Private creditors have a market share of the remaining 20% and it is more equally distributed amongst the operators. Also in Estonia, the market intensifies rapidly. To emphasize, the market review mentioned another 16 applications for new creditors, which would mean over 30 % short-term market growth. (Finantsinspektsioon 2017)

Currently, the Estonian banking sector is sound and profitable, which supports the growth in banks' outstanding. However, the sector is quite concentrated since it is dominated by a few mostly Swedish banks and the interest rates are relatively high compared to Finland and the EU-average. (European Commission 2017b)

In addition to traditional banks, private and captive finance companies cover the other half of the European market. Captive and independent companies are financial institutions that involve in lending but do not accept deposit or public funding. These companies do not require similar authorization for their operations as bank-owned companies. Furthermore, there are no special regulations related to financial institutions compared to bank related financing institutions. (Financial Supervisory Authority 2017) These companies represent the so-called shadow-banking system.

In short, the shadow banking system consists of operators that offer bank-like activities but fall outside financial supervision and official guarantee scheme. These institutions, often run with private equity, tend to affect the economy positively but are also sensitive to cause risks. (Bakk-Simon et al. 2011)

In Estonia, shadow banking is estimated to total 3.9 billion euros (Q3/2014) that equals about 20% of GDP and of the financial assets of banks. This amount includes only operators engaging in intermediation. Still, the actual volume might differ from that, because the definitions and reporting is blurry. Other financial institutions are the largest subgroup, which include also lease companies set up by Estonian banking groups. (Bank of Estonia 2015)

In Finland, other financial intermediaries, which is the narrow definition for shadow banking system, totaled approximately 39.6 billion euros in 2014. Compared to Estonia, shadow banking in Finland similar because SBS equals approximately 19.5% of the GDP. (Honkanen et al. 2015)

Both in Finland and in Estonia, the shadow banking system is reported to be lowly risky, but the importance of its monitoring is emphasized. (Bank of Estonia 2015, Honkanen et al. 2015)

3 DATA AND METHODS

3.1 Data

This research has three key interest groups, which are the manufacturer, the financier and the retailer. To create a sample, which represents the key interest groups equally distributed, a purposive sampling was used. However, the method increases the necessity of critical approach toward parameters and bias. For the representatives of the sample, three requirements were set. Firstly, the interviewees should be familiar with equipment finance related to either forestry or agricultural machinery. Secondly, they should have a decision-making position in the company and be responsible in the areas covered in this study. Thirdly, all interviewees must represent one of the three interest groups. Due to strict requirements and limited number of operators, purposive sampling remained as only useful method to compile relevant information of the topic. Even though the sample remained rather small, also the number of businesses and operators in both countries is very limited. In addition, Hirsjärvi and Hurme (2008 s.59) state, that even a few interviews will be enough to obtain remarkable data if a deep understanding of a phenomenon is aimed instead of statistical significance. Also, as a qualitative study, this study does not aim to be statistically representative.

The primary data consists of eight semi-structured theme interviews, which, according to Eriksson and Kovalainen (2008:78), is the most often used method in qualitative research especially related to business topics.

Due to confidentially of the interviews, the respondents remain anonym, but here, the short outline of the companies included are introduced to illustrate their relevance and importance for this research. Three retailers were interviewed, of which two in Estonia and one in Finland. The first Estonian company represents several small and large brands and they use both, private-label financial service of a manufacturer and an own captive finance company. The second one represents mainly one large brand and they use the private-label financial services from the manufacturer. The Finnish company is a multi-brand retailer, which operates financial services under own label, and have not implemented the manufacturers' services. One financier in both countries was reached for an interview. In Finland, the company operates closely in private-label services in several industries, and it has also global operations. In Estonia, a local financier was interviewed, which operates together with several companies within private-label financial services in Baltics. From the manufacturers, three representatives were reached. One interviewee works in agriculture and the represented company has both captive finance company and private-label services in use. One manufacturer in forestry was reached and here, two representatives were interviewed. This company uses private-label financial services along with local operators. All interviewees possessed at least middle management positions and a few were even on senior management level and members of the board of directors as well.

3.2 Research method

The research method is qualitative, because, according to Eriksson and Kovalainen (2008:5), a qualitative approach provides better tools for understanding business-related study problems with modest prior research. This paper aims to intensively explore and gain an understanding of motivations, opinions and reasons behind the topic. Therefore, qualitative data analysis will offer a better and more individual-oriented result. As Hirsjärvi and Huurre (2008:35), an interview fits better for studies that relate to sensitive topics than a survey even though in survey, the anonymity would be better.

The interviewees' own terminology and language is used intensively to emphasize the real phenomena. However, the interviews in Estonia were done in English and Finnish, which influences the terminology and language. The interviewees, that gave the interviewee in Finnish could speak Finnish well, but occasionally, the researcher was asked for support or the word was said in English. Even though the requirements for interviewees were strict, there is a small risk that Non-English-speaking people are excluded in the sample.

The empirical data was gathered by interviewing professionals. The interviews are the most useful source of data for this topic, since especially personal and organizational perspectives were preferred, and they were also received. The style of the interviews was semi-structured, since this enabled questions like "what" and "how". For the interviews, a theme sheet of five themes with intended questions was created (Appendix 1) to support the interviewer. Additionally, the sheet was adjusted separately for each stakeholder group. According to Eriksson and Kovalainen (2008:78-85), a theme interview supports the collection of data the most, since it leaves space for emerging questions, but on the other hand, it challenges the researcher to ensure that all topics will be covered. Still, the interviews could last only the appointed time and all the relevant data must have been observed during this time span. With the help of the theme sheet, time management turned not out to be an issue, but the interviews lasted on average 60 minutes.

For the interviews, five key themes were selected and for each theme, several supportive interview questions were discovered based on previous research, theory part of this paper and the researcher's foreknowledge. The order of the themes was arranged to observe data starting from general information towards more specific level. The themes were:

1. Equipment finance in general
2. Co-operation
3. Private-label solutions
4. Sales
5. Agriculture and forestry customers

All interviews were recorded using mobile phone and then, transcribed into word-file to support the analysis part. The accuracy of the transcript is word-to-word of the relevant parts of the conversations excluding filling words. According to Eriksson and Kovalainen (2008:85,128), it is enough in business studies. All transcripts were done as fast as possible, mostly within few days of the interview, which improves the interview's quality (Hirsjärvi and Huurre 2008:185).

When the transcripts were ready, they were read several times. During the reading, the data was categorized by color coding sentenced within the themes that were used in the interviews. Then, the coded lines and terms were collected among each theme using MS Word program. In literature, this method is called thematic analysis. As Hirsjärvi and Huurre (2008:149) emphasize, coding and classification works only as an interphase, which support the researcher to clarify the content of the data. The coding among the themes was continued to closer combination of data, which was necessary for deeper understanding of the data. Here, the irrelevant parts were excluded.

When the coding and categorization was accomplished, each theme was analyzed and some sub-categories were extracted, but in general, the pre-selected themes worked well in the classification and no other themes clearly emerged. Due to minor prior knowledge of the topic, the analysis was done more inductive-oriented, which means that themes, categories, activities and patterns from the natural variation of empirical data were tried to extract. As Eriksson and Kovalainen (2008:129-130), an inductive strategy allows the researcher to discover new concepts utilizing both empirical data and prior research, but also the researcher’s familiarization with the topic. This approach means that final research questions were refined during the research process, and here, from original three research questions became four.

4 RESULTS

The interviews, conducted during December 2017 and January 2018, gave a valuable insight into the private-label finance market both in Finland and Estonia. The five themes, that were formed to enhance the relevant data gathering, worked well and without exception, all interviewees could offer information from all themes. All participants seemed to be interested in the results and they considered the topic interesting and rather actual.

In this part of the paper, key results are summarized against the five pre-selected themes. The results are presented based on the researcher’s interpretations including translated excerpts from the original transcript to emphasize the real phenomenon. Firstly, the result is interpreted and secondly, a demonstrating excerpt from the original transcript is given. The four research questions are answered later in the discussion part, where the results against the questions are summarized and their relevance to existing knowledge is discussed.

4.1 Equipment finance in general

This theme was focusing on the general aspects in equipment financing. The key supportive questions were about the importance of equipment financing, the use of financial products, competition in finances, and financeability of the products. In addition, information about the recent development and the future expectations around the topic was inquired. To observe the current trends in equipment financing is essential, since it forms the ground for the further topics.

4.1.1 Importance of financing

The importance of financial products arose in each interview. In agriculture, the manufacturers and the retailers report that the penetration level, which depicts the number of financed machines proportional to total sold machines, varies from 40 to 65%.

“*In Finland, the numbers are something like 65% and in Estonia maybe the half are financed*”

Also, all interviewees agree on a remarkable growth in demand on equipment financing during the last ten years. The main emerging reasons tend to be the lack of collaterals, changed attitude towards financing, and the attractive finance terms such as low interest rate and flexible payment plan.

“*Yes, it has risen from 30% to 40%. The finance proportion has grown but it is not yet the half. The need for financing has notably risen, because all collaterals are used to other investments on the farms*.”

In addition, from the financiers’ perspective, agriculture and forestry equipment are well financeable due to high liquidity.

“*In vendor business we focus on standard assets -. - this liquidity or this second-hand market should have direct value and it should be easily defined. If we think about machinery, I don’t see any limitation*.”

In forestry, the accounts vary from large industrial customers to micro companies. The companies from one to even tens of machines in their fleet are those, who use financial services, whereas the large companies tend to use other sources. Among the SMEs, the penetration level of financing is even 98 % and a trade-in machine covers the down payment in even 85% of the deals.

“*These two customer groups require financing – we can say that 90 plus percent are financed - and this complies everywhere -*.”

In the future, the meaning of financing is estimated to increase for all studied parties. The machines become more expensive, the businesses professionalize, and when these industries begin to move towards rental, then the co-operation in financing becomes even more necessary.

To conclude, one respondent in Estonia described the equipment financing as a settled function of their sales operations.

"*It is automatically clear to us and to customers*."

4.2.1 The popularity of leasing products

In Finland, hire purchase is the most popular leasing product. However, the increasing popularity of finance and operating lease is emphasized by all interviewees.

"*Forestry is very much hire purchase dominant. In my estimation, 90-95% is hire purchase, which is similar in tractor business*."

The interviewees point out several advantages in hire purchase over leasing, which seem to cause the distribution between the products. Firstly, both customers and salesmen are very familiar with hire purchase and it connects to the willingness to own the machine. Secondly, an important incentive to use hire purchase seems to be the tax return and the tax treatment related to trade-in machine.

"- *when they use hire purchase, they get the VAT from the total price in tax return. It seems to be the incentive*."

On the contrary, the interviewees highlight the following advantages of lease finance over hire purchase, which explain both the increasing demand and supply. In lease contract, the lessee pays only from the usage, depreciation and interests, which cumulates to lower monthly payment comparted to hire purchase. Also, from the financiers' point of view, leasing is preferable compared to hire purchase, because in leasing, the financier must not finance the taxable price.

"-in hire purchase, we finance even the VAT share. – in that sense leasing is from the risk perspective slightly better for the financier."

Therefore, financiers often require lower down payments for lease contracts, which is an advantage compared to hire purchase.

Currently, the respondents report that the key obstacle in leasing is the lack of knowledge.

"*I believe that leasing will become more popular. There are few obstacles. There is the knowledge, neither our sales men nor our customers do not understand the product. But it would be better, because there the monthly rate is always smaller than in hire purchase.*"

However, young generations are reported to be more open-minded to other financing solutions.

"*- new generations in business field have begun to increasingly prefer more leasing.*"

In Estonia, finance lease is the leading product in the sector and, according to the interviewees, it is widely recognized among the customers. The Estonian financiers do not offer hire purchase, but the finance lease is a counterpart to hire purchase. Meanwhile, the operating lease seems to become increasingly popular especially among large companies.

"*In general, hire purchase we don't offer. But our financial lease is between hire purchase and financial lease in Finland. Financial lease is 80%, but the other are growing and inside operational lease the service lease is crowing.*"

However, those contracts require a repurchase agreement, which means that either the financier or the retailer agree to redeem the machine after the lease period. According to a respondent, tractors financed by operative lease are often high-end machines and those are sold, on average, to large farms.

"*These businessmen want that the leasing of the tractor is operating lease that the machine is returned after 4-5 years. They respect that everything is luxurious, suspensions and air seats*"

According to the respondents, the attitudes towards the IFRS changes and its effects were manifold. Only one of the interviewees was not aware of the adjustment. The financiers were most aware of the change and partly, discussions about off-balance solutions for the customers in one company were active. Important is, the interviewee stated, to come up with a new product as fast as possible to succeed in competition.

"*There will be changes huge regarding IFRS accounting difference in Europe. It will affect our product portfolio definitely.*"

However, most of the interviewees considered the changes rather mild, since the customers seem not look for off-balance solutions in significant quantities and since the customers must not report using IFRS accounting. Overall, the effects especially on agriculture and forestry companies will be limited.

"*Nobody has taken the IFRS change up yet.*"

"*It won't affect the big picture.*"

4.2 Co-operation

This chapter aims to discover the current conditions in partnership between the operators by enlisting the key expectations and obstacles in partnership. In every business, bilateral agreements are undeniably manifold, but here the focus was to extract features special to private-label solutions. In addition, the aim was to study the obstacles that appear, and the current and future challenges in the co-operation.

4.2.2 Conditions

All conditions were mainly in line among each stakeholder group. The main differences emerged in the types of co-operation. Here, the key conditions are listed by respective stakeholder.

Retailers

The retailers expected a fast and transparent service, which means a short credit response time and transparency related to rejected applications. The fast reply time is even more important when the machine is immediately available in stock.

"*For us is important that the client receives a fast credit reply. It is important to receive concrete answer and options related to payment plans etc*."

Also, they respect reachability and constancy of the partner, and the knowledge of the agriculture and forestry as a business.

"*I respect the reachability that the response is quick. Secondly, I respect that the financier is familiar with our customers and the industry and the machines. That the representative understands what the machines is and what it does.*"

Overall, they are very satisfied with the existing digital services, which have eased and hastened the correspondence between the vendor and the financier.

"*It is an advantage that we have a digital environment where we can do a credit application fast – and there are cases, when the reply comes from the bank within two hours.*"

Manufacturers

The manufacturers consider financiers as strategic partners, who they are sharing knowledge with.

"- financier is also visible that it is us a strategic partner."

They prefer well-funded partners that have a large coverage of the distribution network, which helps to cover several countries within one agreement. Also, the brands should support each other, which means, that the partner should share similar values in their business. At best, the brands would support each other.

“*We have a company that operate on strong values and we wanted that the co-operator that it doesn’t have contradictions in values -.*”

On the service level, the manufacturers expect quite similar aspects from the financier than the retailers. For them, the financing should be fast and easy, where the reply time seems to be even more important than the price.

“*They expect - better than average service - that the retailer can handle leasing easily, - the credit response times should be fast and then it should be easy, standardized, sometimes even the approval rates and vice versa the rejection rates are fixed in the cooperation agreements, better product mix and then we should have competitive conditions. We don’t have to be cheapest but we should be competitive. And of course, a strong funding base. More and more important becoming is this what kind of front end systems finance companies are using.*”

Especially in heavy machinery, the financiers are expected to operate actively on customer interface together with the sales force, since for example, a harvester or tractor investment is always a remarkable decision to the customer.

“*We expect that the financier moves on foot like our sales force and gets to know with our customers.*”

<u>Financier</u>

Currently, the financiers compete actively on co-operations with retailers and manufacturers. However, the co-operation with vendors as well as manufacturers with weak financial condition and poor operations is avoided.

“*It requires that the vendor is stronger operator or a better brand. Certain manufactures are such brands.*”

The financiers seem to respect countability in co-operation, which means the parties follow the agreements and this way, an agreed amount of deals is appointed to the specific financier. In closer co-operations, the financier might insist agreements of risk sharing in default cases. Here, the financial strong manufacturers are preferred: partners.

“- *the meaning of co-operation is emphasized in defaults; how much they can support if the customer is insolvent and the machine come back to us so if they help in that process like we have now*.”

4.2.2 Obstacles

The interviews revealed several obstacles that appear in co-operation. Some of them were in line with the ones that were already emphasized in the literature part of this paper.

The major obstacle for increasing sales of financial products seems to be the sales force. On one hand, according to retailer, the lack of product knowledge in leasing prevents the growth even though the advantages are well-recognized. On other hand, the financier struggle to motivate them to use the financing as a tool. However, an on-going gradual improvement was reported by most of the interviewees.

“*So, the obstacle is that the retailer is focusing on to sell the machine and to motivate - them to use or sell financing as part of that solution. So, training sales force and to achieve that sales force understand the financing -that they know what they are selling and they know how to use is as tool to sell better*.”

The second obstacle is the inactive co-operation especially highlighted by the financiers. For further growth, a stronger attendance and a wider product selection for machinery would be necessary, which is currently challenging due to resource matters.

“- *in machinery, we haven’t offered this enough or actively to our customers*.”

“*Maybe we could have more products for retailers - wider range products for retailer that we have already with car dealers. We should be stronger on machinery dealer and manufacturer. That could we improve*.”

Moreover, private-label agreements might limit the financier's co-operation with other brands in the same industry.

"*We have a common finance company X and there the exclusivity is visible. But then, here in Finland, we cannot co-operate with other brands of that industry.*"

Overall, the manufacturers and the retailers were satisfied with their available financial services, even though some slight obstacles related to service time and digital solutions were reported.

"*I don't know what to improve in co-operations, we are very satisfied with current situation -.*"

4.3 Private-label financing

This chapter focuses on the incentives, achievements and challenges of the private-label financing extracted from the interviews. The large growth in private-label financing was reported to have begun after the debt crisis in 2008, when the manufacturers, according to one respondent, decided to support retailers with financing in Nordics and Baltics. Private-label solutions are actively in use in agriculture and forestry, but also in other industries such as construction, logistics and IT. Often, the respondents used these industries for comparison and illustration.

4.3.1 Incentives

According to the interviews, the discovered incentives to set up private-label financial services vary heavily by type and stakeholder. The key aspects are reported separately with respective stakeholder.

<u>Manufacturers</u>

The financial services aim to support the manufacturer's sales. Mostly in Estonia, but partly also in Finland, the manufacturers have been able to cover several countries within one agreement with a financier.

"*I think the coverage and the support their product sales and retailers with their financial solutions more focus and more professional way, it has been the main idea for the manufacturers to come here and establish co-operation*."

More precisely, the manufacturers interviewed in this research have multiple reasons to finance their sales using their own branded financial solutions. Firstly, they aim to have more effect on credit pricing and terms. This means that they will either substitute the agreed rate with funds related to campaigns, that aim to compete against competitors or even cash buyers. In addition, the manufacturer might want to share risk to allow financier to accept more risk in credit decisions or agree on a specific rejection rate.

"*Together with retailer we should also compete with cash buyers because cash is never free and this was kind of a new angle what we learned from the manufacturer*."

Also, the manufacturers are rewarded with commission kickbacks or division of virtual net profits with the financier, which can be financially very significant.

"*It is moving to that direction more that their focus is in longer run more on money what they are generating for financing portfolio.*"

Secondly, the customer's loyalty is important. Due to use of more different labels, they try to engage the customer to the brand in long-run. This is an advantage, which also has forced direct competitors to come up with own services. Thirdly, the decrease of obstacles to sales was emphasized, which links to sales promotion and sales support. This means that the manufacturers want to be flexible and not too dependent on the financier.

"*Our competitors have finance companies in their corporations – we wanted to launch similar concept outside our balance sheet but for sure, sales promotion which means to lower sales obstacles and to be flexible alongside with current finances*."

Financiers

The financiers' incentives to set up private-label financial services with a manufacturer are mostly monetary, since the service guarantee a significant share or all deal to the service provider.

"-from the financier's perspective, it channels the deals to us. I don't see any negative things in private-label financing. It pushes up the seller's brand and channels us the deals."

Manufacturer were reported to actively take part on risk sharing, that supports the lending and decreases the losses in default. The revealed risk-sharing methods are loss pools, top-slice method or a direct redemption by the manufacturer. This, together with subsidized interest, allows the financier to operate without high pressure on pricing.

"*As I said our focus was the easiness to sell products it has helped to develop products that are easy to understand to customer and has helped direct sales.*"

In addition, the financiers are keen to co-operate with world's largest manufacturer that have decades of experience of branding in equipment financing. On the management level, a global co-operation is preferred, even though the implementation on country level was reported be challenging.

"*We have agreements and programs on co-operations with manufacturers done overseas and if we have that kind of co-operation, it beams differentially to each country.*"

Retailers

The sample included two kinds of retailer in terms of private-label financing. The one using the manufacturers' services and the other that had established private-label financial services themselves. The retailer using manufacturers financing seemed to have taken the financing opportunity as granted. However, the retailer reported to have co-operated with other financiers but was not satisfied. The incentives for a retailer to set up own services were the broader usage of the brand, increased effect on credit decision, faster and local response time, earning and easiness on system and sales level.

"*Our business had a problem, that our customers, that were not large enough, required financing as well. Their requests were rather versatile and the equipment was unknown to financiers. For the financiers, they were risky, but not for us. That's why we begun to finance the sales.*"

"*We have all in our hands and it is a way more straightforward.*"

4.3.2 Achievements

<u>Manufacturer</u>

According to one agriculture equipment manufacturer, the company reports to have gained a comprehensive and functional finance tools, which is flexible and cheap to variations such as campaigns. That company has not implemented their existing captive finance company either in Finland or in Estonia, because the current private-label service is solid.

"*The financiers' organizations support our organizations and we use their system. If all parameters match, we receive the reply even immediately*"

"*When it is done with our co-operator, we have more easily use to campaigns etc*."

Another manufacturer, from forestry, reports to have managed to arrange global financial solutions with a financing partner outside their own balance sheet. This has brought them closer to the competitors in terms of financing. In this case, however, earning from portfolio was not pursued but the comprehensive sales support.

"*Above all we wish to have a leading machine and finance package, that we could offer to our customers*"

"*Our sales force has assimilated it well and it has supported the sales.*"

In addition, this manufacturer does not offer a repurchase agreement in operational leases, which, seemed to be exceptional.

"*If the machines come back to financier, we have agreed to support them – but the machines always go back to the financier*."

Financiers

The financiers, that offer private solutions report to have gained a significant increase in profitability and market share. The achievements are reached with the manufacturers' support, which more precisely are the funds, that subsidy the interest rate and exclusivity, that channels the deal to the financier.

"- we have increased our profitability also with doing that and it has been a big help that many manufacturers are really focusing on supporting dealer and to support with the solutions to increase the market share and they are ready to contribute and put efforts on that. And also, in the way of allocating funds to the financing what we can use to substitute the rate which gets less pressure on our rate in the competition."

Additionally, the subsidized rates have decreased the pressure on pricing, which would not be possible without the funds.

"*As I said we are not in that kind of competitive fight anymore and if there are enough funds allocation that the rates would be so outstanding that the competitors cannot sell.*"

An important achievement, as well, is the knowledge. The domestic financiers have learned from the co-operation with leading and global operators, who have also been willing to share their knowledge.

"- they are world leaders and we have learned from that. We are learning from them how they see and they use financing in the markets when they have own financing companies or portfolios."

"*In co-operation with us, they are really willing to share how they do and what they expect from us –.*"

Another supporting aspect related to lending is the risk-sharing.

"*In these default cases – we have risk sharing agreements if some residual remains after the sale of the machine*"

The financiers, who have agreed on private-label solutions, are rather satisfied with the conspicuousness that these agreements have entailed. The use of references has helped to enter markets, such as the Finnish market, and it is widely utilized in marketing purposes.

"*We use our global co-operations as a reference towards our customers."*

<u>Retailers</u>

Retailers, that have private-label financing solution, can earn from the portfolio even though elsewhere in Europe, the situation tend to be opposite.

"*I have such a vision, that in Europe the financing is done from another perspective – there it is a cost component for the retailer. In Finland traditionally, the retailer earns a slide from it.*"

Furthermore, the own services have helped to offer financing to broader customer base and the services have had a positive audience from the customers.

"*Important is that X can sell own machines and it is an advantage to have this electronical environment, that we can quickly represent the finance deal to the customer about the payment plan, downpayments, monthly rate and interest.*"

4.3.3 Challenges

Three key challenges can be extracted from the data. They are the commitment of the manufacturer and financier, the education and motivation of the sales force, and to maintain competitive.

The success of private-label financing bases on the commitment of the partners. For the manufacturer, it means that they should maintain the eager to truly support the retailer as well as the financier. In the future, the machines become more expensive, which even more emphasizes the importance of the support.

"*Of course, I see that it is depending on how committed and eager the partner is to achieve this results by their selves how much they are supporting because it is not only in our hand -*"

Until recently, the manufacturers have mainly focused to support the sales and increasing commitment, but it is estimated to change in a way that the manufacturers are more willing to earn from the portfolios as the construction business. The implementation of the captive companies seems to be unavoidable.

"*It is moving to that direction more that their focus is in longer run more on money what they are generating for financing portfolio.*"

Manufacturers, on some level, struggle to implement own financial services with retailers that represent several labels. It was reported, that a strong retailer will refuse to use financial services with a specific label if it conflicts with other brands or the financing terms are poor.

For the financier, it means that they must maintain the service level, where continuous system and process developments are essential together with portfolio development. Also, they are struggling to have enough capacities in machinery even though the sector is considered important.

"*To meet all these criteria. Our service level has been quite good for now. It is immediately becoming an obstacle if you are not meeting expectations of the manufacturer.*"

4.4 Sales

The direct effects on sales of private-label financing cannot be extracted. Still, the effect is significant, which implicates in high penetration levels. Overall, the stakeholders are satisfied with the private-label financing. The manufacturers as well as the financiers were reported to have achieved their targets at least in Estonia, where these operations are more mature compared to Finland. In several examples, the targeted penetration levels were reached with the exclusivity of the partner financier. The milestones here were a total amount of financed machines against total machines sold.

Also, the manufacturers, with help of subsidized rates, have succeeded to gain customers that normally use different financing sources domestically or even foreign banks.

"*For example, peat vendors, who have foreign owners, have begun to use X financing as a help and opportunity.*"

The private-label financial solutions are actively utilized in sales. The most common tool is e.g. to arrange a campaign, which aims to sales promotion or to adjustment of the interest rate or the machine price to competitors' level. Here, the state of sales and the marketing budget set the limits for campaigning.

"*It is a trade-off, whether the campaign budget is wanted to invest in interest rate or is it showed in the price.*"

The sales force has welcomed the branded solution well, even though training is required to e.g. more effectively to combine financial solutions to sales. Though, with the solutions, they have received an extra tool to close the deal.

"*They are satisfied. Financing is one more tool to get the equipment sold*"

Younger sales force has assimilated the sale of monthly rate more than the older. This kind of sales has more been seen in automotive or construction business, but it is transforming agriculture and forestry business as well.

"- these new salesmen have clearly taken the financing as a sales argument. They can use it. They can sell monthly rate -."

The private-label financial services have enhanced the finance terms and mitigated the sales obstacles. Often, the terms are standards, which helps the sales force to sell the financing compared to send applications to several financiers.

"*We want to and we have achieved to build so easy finance package under own brands to the sales men that there is no reason to apply financing elsewhere*"

In the future, when the number of sold new machines, especially in agriculture, is estimated to decrease. Thus, the importance of finance in sales remains vast.

4.5 Agriculture and forestry customers

This chapter is focusing on the customers. The aim was to extract previous, current and future trends affecting equipment financing within these sectors. In addition, key differences from the stakeholder's perspective were pursued. The results would assist to explain observations, done earlier in this chapter, better.

<u>Agriculture</u>

Agriculture is a business that is vulnerable to changes in climate, commodity markets and legislation. Also, the latest years, especially in agriculture, have been financially weak, which often has multiyear effect on investments.

"*Regional catastrophes affect always one or two years forwards, when the income side runs out and it takes bearings to machine purchases.*"

However, the on-going wave of consolidations and growth in business sizes are transforming the businesses into more professional. This is seen positively from the stakeholders' perspective, since it increases the opportunities to invest in machinery and on the other hand, to enhance the creditworthiness of the businesses.

"*In general, this industry is getting better and more professional how to manage their companies and farms. They are growing, there are consolidations going. – their capability to buy a tractor and get financing has been getting better during my 15 years of working*."

In addition, that development together with generational change supports the more subjective usage of the machinery which might increase lease finance's popularity. Still, the necessity to large productional investments, deteriorating heavy equipment and more expensive new machinery are considered as threats in terms of equipment financing.

"*The trend is, that investments have decreased that the equipment is hold longer and some farmers share the equipment that they have consortiums. But yes, it means that investment debt has grown.*"

Overall, the investments in new agricultural equipment has collapsed during latest years and the market is reported to further shrink. The situation appears to be similar on Finnish and Estonian markets, even though the average farm size in Estonia is even tenfold.

"*The economic situation in Estonia is very tight and there these farm sizes are remarkably larger and there it is more industrial this agriculture. Let's say that the farms are ten or twenty-fold and even so they are not profitable.*"

<u>Forestry</u>

In forestry, the accounts are seen rather stabile and such a dramatic development like in agriculture was not reported. The on-going consolidations and the seek for scale economies is present also in this industry, which is caused by the low profitability of one or two machines companies.

"*It gets more and more professional whole the time and these consolidations that smaller merge to larger keep happen.*"

"- that forest machine contracting has become more challenging that if you have one machine – it is hard to be profitable so it requires consolidations – that you are able to achieve scale economies."

For forest machine contractors, the specialties are the use of trade-in machines (80-85%) as down payments and the installment free months during the stoppage. These are well-known conventions by the financiers.

5 DISCUSSION

The purpose of this study was to create an overview of private-label financing of agriculture and forestry equipment in Finland and Estonia. The paper aims to extract important factors in terms of incentives, benefits and challenges from three key stakeholder's perspectives. The primary data was gathered by interviewing professionals, based on their experience in this business, in both countries.

This chapter, firstly, provides evaluation of the key findings, that were emphasized in the results, and discusses them. Unlike in previous chapter, the evaluation is done against each research question. In other words, the results are shortly summarized, then discovered side by side with the theory and the previous findings highlighted in the theory part. Secondly, county comparison between Finland and Estonia is done briefly to emphasize the similarities and the differences of the studied markets. Then, an overall evaluation of this research is conducted, which intend to comment on the methods and limitations of this paper but also give some recommendations for future studies.

5.1 Research question 1

"*What are the observed benefits in private-label financing compared to traditional vendor financing?"*

This question was posed to find out the benefits that the key stakeholder groups have already observed. As the results pointed out, the benefits are manifold, but obviously, they differ by the stakeholder group. To the manufacturers and retailers, private-label financial solutions offer an understandable and manageable sales tool, which can be easily adjusted to different necessities utilizing the own brand value. Here, the results indicate, that the controllability is a key benefit. To the financiers, at best, private-label financing allows even a remarkable increase in volumes, because the financier enjoys an exclusivity to the deals at least on some level. This kind of exclusivity, together with the manufacturers subsidies in terms of funds and risk sharing, benefits the financiers the most without forgetting the opportunity to co-operation with a large manufacturer.

The results related to manufacturers point out that the benefits of private-label financing are, at some level, in line with aspects highlighted in previous literature, for example by Essenfield (2008). However, the results emphasize, that greater benefits are achieved in deep and strategic partnership with the financier. A close or even a personal co-operation seems to diminish the necessity to either implement or to establish a captive finance company, which protects the financier's position on the market. Additionally, in line with Nevitt et al. (2000:188), the administration costs of either setting up or implementing the captive finance company are saved, which seems obvious, but here, the findings indicate that the savings even cumulate, when the manufacturer co-operate with a multinational financier with existing resources. Hence, the current evidence is strong, that global financiers benefit from their large economic coverage over local operators. However, according to the results, the local operators can operate on lower funds due to access to cheaper refinancing. Moreover, the current price level on the specific market is an important factor to either implement or restrain private-level solutions. This means, that a market with low interest levels might lure the captive companies less than a market with higher rates. Compared to captive companies, the results emphasize that, the large local operators can offer outstanding prices due to cheaper refinancing, which is supported by the theory part and then, a private-label solution seem to be more beneficial. To conclude, the more competitive prices both benefits and protects the local financiers.

5.2 Research question 2

"*What kind of future expectations exist related to private-label solutions?"*

Within this question, all key expectations related to private-label financing are extracted and then evaluated. The results emphasize several drivers that support the growing popularity of the private-label solutions. Firstly, a general opinion among the respondents of private-label financing is positive. Secondly, the importance of equipment financing is growing along with the rise of lease financing, where the partnership with a financier is almost necessary. Thirdly, the competition intensifies between the financiers as well as the manufacturers related to private-label financing. This means, a large brand should have the possibility to offer financing either from the captive company or over these private-label solutions. Also, for successful services, the private-label solutions seem to require even closer co-operation for example on the system level. These aspects support the indication that these kinds of arrangements, where the financing integrates to the product, are expected to increase in the future.

However, there are a few obstacles that seem to hinder the development. According to the results, for example, the sophistication of sales force is focal, which is in line with Essenfield’s (2008) publication. Even though, there have been development, more education is required. Another factor is the commitment of the manufacturer to support the retailer by providing subsidized rates. This was a key concern together with the increasing interest of the manufacturers to earn from the financing portfolio. Moreover, in line with the theory part, the finance markets in studied countries are rather concentrated, which can result to emergence of foreign operators or even captive companies. This threatens the current operators. On the other hand, constraints set by the exclusivity might limit the operations elsewhere, of which the results are in line with Nextcontinent (2016). However, if the captives emerge, like expected, the situation in heavy machinery financing might develop more into way of automotive where the bank-owner financiers compete against captives with high commission kick-backs (Nextcontinent 2016). It also increases the pressures toward retailers’ branded solutions.

5.3 Research question 3

“What is important in terms of partnership between financier, manufacturer and retailer?”

This question was posed to evaluate the partnership between the operators. Especially the partnership between manufacturer and financier is rather unique, which makes the question relevant and necessary. The important factors in partnership seem to relate to the solutions that are aimed for. According to the results, two key incentives for private-label financing services were extracted. Firstly, the results indicated that some manufacturers and retailers want to earn from the generated portfolio in terms of commission kickbacks or allotment of virtual net profits. Secondly, the sales support is another key objective. These companies, as their priority, try to decrease the sales obstacles by supporting the sales force with proper finance tools. These two key incentives seem to determine the outline for the partnership.

The results indicate that in Finland and Estonia, the manufacturers are searching for strategic and committed partners. To emphasize, Finland as well as Estonia are only part of a larger entity when global manufacturers seek for a finance partner. There, a large economic coverage of the partner forms the basis. Secondly, matching in partner search is done on value level as well. Thirdly, manufacturers have several demands on service level. The results indicate an increasing demand on digital solutions, which seem to be the backbone for fast and easy service, what they also expect from the partner. Fourthly, a difference in attitude towards asset risks in operative leasing was extracted between the manufacturers. In addition, the co-operation in Finland and Estonia is done rather open and the partners are expected to represent the brand side-by-side.

In terms of private-label financing, the results show that the financiers in general are highly interested in partnership with manufacturers. Their aim is to maximize the proportion of deals from that specific manufacturer by reaching for exclusivity. It is important to set up a partnership, which, however, is not a guarantee for exclusivity in all countries. The financiers respect a committed partnership with a strong company, which matches with the manufacturer's expectations. The evidence given here, that the partnership enables increased risk-taking, supports the findings by Essenfield (2008). But, according to the results, the risk sharing is here more oriented to share the losses in defaults in contrast to consider the risk in pricing or grading the credits. However, the status of the partner company determines the conditions especially related lending, which limits the generalizations of the findings.

The expectations of the retailers vary heavily. The results suggest that there are retailers, which are willing to earn from financing and other, that prefer to remain rather neutral. A shared condition with the manufacturers seems to be the excellent service, which often tend to be possible only in private-label solutions, when financiers prefer those applications. Thus, a demand on standardized service level also for smaller deals seems to exist as well, which was also evident in the results.

So far, the partnership this kind of triangle of operators have not been studied. Like showed above, the results could extract important factors in partnership for the first time. Hence, the achieved results can answer the research question well with small limitations. This information could be useful and valuable for all kinds of stakeholders in this business area.

5.4 Research question 4

"*How does private-label financing affect the sales of machinery and financial products?*"

The effects of private-label financing or even pure financial products are hard to extract and quantify. However, both the penetrations levels and the demand on financing in both countries are high. This indicates a rather high influence, which also supports the current development in finance portfolios discussed in the theory part. Also, the number of newly registered tractors in both countries support the development. However, as in the result part, the current trend in the sales of new farm tractors stagnant or even diminishing. This development is controversial with Figure 1, which could be caused by the popularity of smaller or subsidizing equipment that nevertheless are classified as tractors.

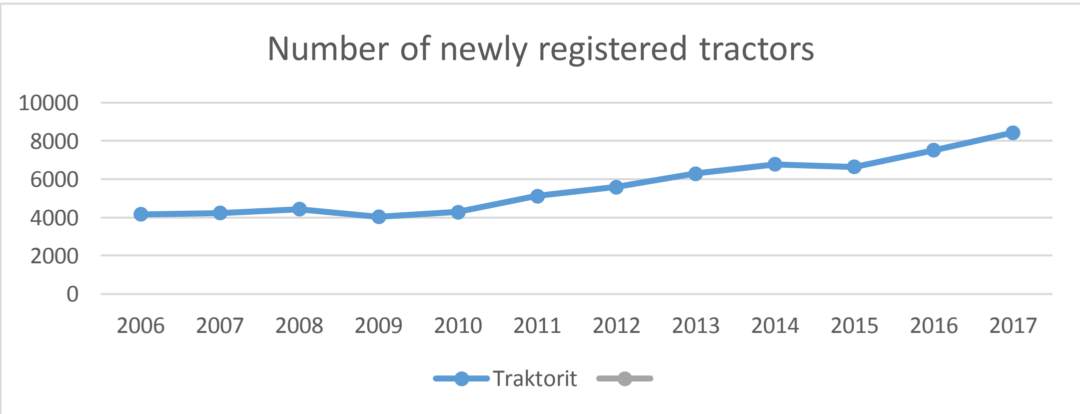

Figure 1. Number of newly registered tractors in Finland and Estonia between 2006 and 2017. (Official Statistics of Finland 2018, Statistics Estonia 2018)

The private-label financing affects the sales by enabling the manufacturer or retailer to offer better and fixed conditions to the customer. This helps them to react to changes for example in sales or competition. Also, the use of monthly rate in sales becomes easier and more flexible in private-label solutions due to closer co-operation and knowledge sharing with the finance partner. Moreover, the sales force is better aware of the standard products since they are tailored for them, even though, here, the responds vary.

From the financiers' perspective, the sale of financial solutions becomes easier and even the pressure on pricing diminished if the vendor subsidizes the price. The results indicate that the increase in volumes is high, but the final earning depends on the agreement set-up, which might include e.g. commission kick-backs or sharing of virtual net profits.

A current trend seems to be the changing liability over the asset risk after the lease period. The results show that in operating lease, the leased assed is traditionally returned to the vendor, but according to two respondents, some financiers redeem the asset themselves. This might increase the supply of operating lease from the vendors' side, since after the machine is sold to financier, no repurchase agreement is done. On the other hand, it increases the risk of low resale value at the financier, which however is limited by risk sharing agreements.

Given this evidence, private-label financing has developed into an important sales tool, which can also generate revenue for all stakeholders. This tool is actively used in marketing, but it also requires continuous development since the needs, especially related to portfolio, increase. Currently, private-label financing seems to be successful from the sales perspective. In the future, however, the increasing number of private-label solutions might lead to increasing competition, which from the stakeholder's perspective is negative but from the customer's perspective positive. Especially in the Finnish market, the emergence of subsidized interest rates as a marketing tool is inevitable. Therefore, it is interesting to see, for how long more than one party can earn from the financing portfolio.

5.5 Country comparison

Overall, the markets in Estonia and in Finland show similarities but the differences are also clearly visible. The greatest differences related to this research, highlighted in the results part, are the financial products, the maturity of the private-label financing and the accounts. As the theory part emphasized, the finance markets in Nordics and Baltics are rather concentrated, almost the same financiers operate in both countries.

In general, the private-label financing is more mature in Estonia and there, those solutions exist more than in Finland. This influences the price levels, which, according to the interviews, seem to be lower in Estonia, even though the theory part suggests the opposite. Hence, the manufacturers allocate more actively funds to the financiers to adjust the prices.

In both countries, the demand on financing in equipment investments is high, which is observed from the reported penetration levels. In the future, the demand is estimated to increase, which follows the aspects in the theory part. During the latest decades, however, the equipment stand in Estonia was reported to have modernized rapidly, where as in Finland the demand has been stagnant. Also, the capabilities of Estonian companies were reported to have enhanced, whereas the trend is Finland is negative. Here, the results consider only agriculture due to smallness of the Estonian forest vehicle market.

The agriculture accounts vary heavily between the countries. It is noted, that the Estonian agriculture companies are ten-fold larger compared to Finnish farms. On one hand, this means that the farms are operating more as a company, where as in Finland, in some cases the farm is seen still as a traditional family business. This seems to have the effect that larges companies are financially more capable to invest in new machines and the trend has been on-going in Estonia for years. On other hand, still the capability to invest in new machinery is in both countries limited, which is reported by the respondents in form of stagnant sales of brand new tractors.

5.6 Evaluation of the research

In line with the data and methods chapter, a qualitative research is a suitable research method related to topic with low prior knowledge. Here, the selected method was successfully used and all the expected targets were achieved. The chosen approach allowed for comprehensive analysis of the phenomenon of key stakeholders engaged and hence, all four key research questions were answered. However, the restricted sample size limits a broad generalization of the results. Also, a qualitative research is always sensitive to researcher's subjectivity, but here, the used theme sheet releases the researches from it, since every interview follows the equal protocol as Hirsjärvi and Huurre (2008:48) suggest. Still, the limiting aspects should be considered while assessing the outcomes of the paper. Though, like Hirsjärvi and Huurre (2008:58-59), a qualitative research does not aim to statistical significance, but to understand a local phenomenon, this research truly revealed new and remarkable perspectives of the topic.

To improve the data, several aspects were considered. First, all interviews were transcribed by the researcher within days. However, in qualitative research, the validity of the data and the reliability are important and they often relate to both the interviewer's actions and the interconnection in the interview (Hirsjärvi and Huurre 2008:185-189). Secondly, the sample included three kinds of respondents, which, on one hand, improves the variation of data, and on the other hand, influences the reliability positively. Additionally, the sample was high-quality, since the respondents were real professional in the business. This increases the validity of this paper significantly.

These results fulfill the cap in knowledge, at least partially. A broad generalization should not be done due to restrictions, but the results provide valuable information and a managerial perspective to the operators as well as to the public within this business. Hence, the outcomes are relevant to decision makers, which emphasizes the remarkability of this study.

In the future, it would be justifiable to study several other topics as well. For example, it would be interesting to know whether a private-label solution is preferred: over a competitive offer when the terms are about the same. Also, a qualitative approach could be used to observe numeric effects on retailers using the manufacturers private-label solutions like it was done with the captive companies by Bodnaruk et al. (2016).

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APPENDIX 1

<u>Theme sheet</u>

1. **Equipment finance in general**
    a. Which financial products are offered in equipment financing?
    b. How are they distributed and how have they developed recently?
    c. What is estimated for the future? Popularity of leasing?
    d. Is there some equipment that cannot be financed?

2. **Co-operation**
    a. What kind of co-operation is done related to financing?
    b. What is respected in partnership?
    c. Growth obstacles and challenges in partnership?
    d. How could it be improved?

3. **Private-label financing**
    a. What were the incentives for agreement of private-label financing?
    b. What have been achieved and what kind of future expectations exist?
    c. How competitors are taken in consideration?

4. **Sales**
    a. Are you satisfied with the sales considering branded financing?
    b. What kind of effect have private-label services had on sales and sales work?
    c. Can you tell me about the pricing?

5. **Agriculture and forestry customers**
    a. Are there some current trends among this customer group?
    b. Do they have any specific requirements for financial products?