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Creating competitive advantage

Supporting vendors globally: **Karen Larson** gives a run-down of strategies for successful vendor finance partnerships - as well as the potential pitfalls to avoid

Introduction

Strategic advantage. Value proposition. Client control. Competitive advantage. In today's markets, every company wants all these benefits and more - and they want them right now. In fact many companies would claim that, without these advantages, their very existence was in jeopardy. Indeed there is a tool that can immediately provide these advantages (and more) to many global manufacturers and equipment dealers: That tool is equipment finance.

Used strategically, equipment finance can help a company reach its business goals. At Key Equipment Finance, we have witnessed this reality over and over. Our perspective is a result of more than 25 years of experience in global vendor finance, presence in 26 countries, and possession of the longest-lived vendor programs in our industry. We have worked with our clients through financial challenges, including major changes in their markets and products, mergers and acquisitions, and economic ups and downs. In every situation, the finance programme has played a strong role in helping those clients successfully execute their strategies.

However, if not applied effectively, the strategic value of an equipment finance programme may be overlooked or wasted. The over-done tactical approach of using leasing to provide thin rates and last-resort proposals diminishes the true value of leasing's significant capability. Vendors and dealers must rethink how they position this powerful tool if they plan to use it to their advantage.

Benefits of an equipment financing programme: Everyone wins

A well-structured and managed finance programme can provide substantial advantages to a client company. These benefits fall into two major categories: customer management and financial management.

The classic benefit of offering a finance programme is acquisition, growth and retention of your customers. A financing option can overcome such typical customer issues as obsolescence protection or budget restrictions. "When you're selling a $500,000 to $1m product, it is much easier to sell a monthly payment rather than a lump sum," remarked Wade Schoech, senior finance director of Network Appliance Inc. This same principle holds true for smaller transaction sizes as well, a fact that is clearly demonstrated by Key Equipment Finance's 1,000-plus dealer programs.

Programme benefits don't stop at acquisition. A well-structured finance programme, when combined with a close relationship between the vendor/dealer and the lessor, can also help expand and retain customer relationships. Key Equipment Finance has worked with many clients to design customised financial structures that serve to increase the amount of equipment a lessee acquires over time, promote embedment of a new technology, and provide a defense against encroachments from competitors.

Vendors and dealers are not only concerned with the sale of new equipment. Control of the aftermarket is also important to avoid competing with an older generation of one's own equipment. Financing programme agreements can contain remarketing provisions that allow the lessor and vendor/dealer to work together to prevent such cannibalisation.

In Key Equipment Finance's experience, vendor and dealers are also able to take advantage of a wide spectrum of additional benefits: control of delinquencies, management of customer service issues and assisting customers in management of their loan covenants and balance sheets, to name a few.

The first step: defining success

When considering an equipment finance programme, the first step for any vendor/dealer (regardless of size or industry) is to define what constitutes programme success. This definition should focus on how a financing programme can help the company achieve its strategic objectives. Setting clear and realistic programme expectations and communicating them to the appropriate audiences, including company senior management and prospective vendor partners, is critical for success.

Benefits of outsourcing

In exploring how to provide a financing solution, one of the most basic decisions is whether to develop the function in-house or to outsource it. Equipment finance has specialised requirements in terms of systems, billing, accounting and documentation, among others. If appropriate systems do not already exist, a vendor/dealer is facing a huge investment in leasing IT systems and skilled personnel, which will force the company to put on substantial assets in order to justify the costs incurred. Most vendors simply do not have the scale to generate an acceptable return on such a massive investment.

Sometimes, there can be unanticipated consequences to an internal finance programme. For example, a financial division or subsidiary of a manufacturing company may be perceived as a non-core activity, resulting in a diversion of management away from the core business, draining resources, and perhaps not earning a sufficient return on income (ROI). If a large upfront investment is required to enter the financing business, this can leave the financing subsidiary vulnerable. This situation can deteriorate further if the unit's primary competitive strategy is to provide low rate structures.

Additionally, in an internal programme, the close relationship of the finance company to the manufacturer makes it much more difficult to achieve accounting sales treatment. In many structures, sales treatment can only be achieved if it is an "arm's length" transaction with an unrelated lessor. Combined with low rates, this situation may further hurt the unit's ROI, negatively impacting the company's overall financial performance.

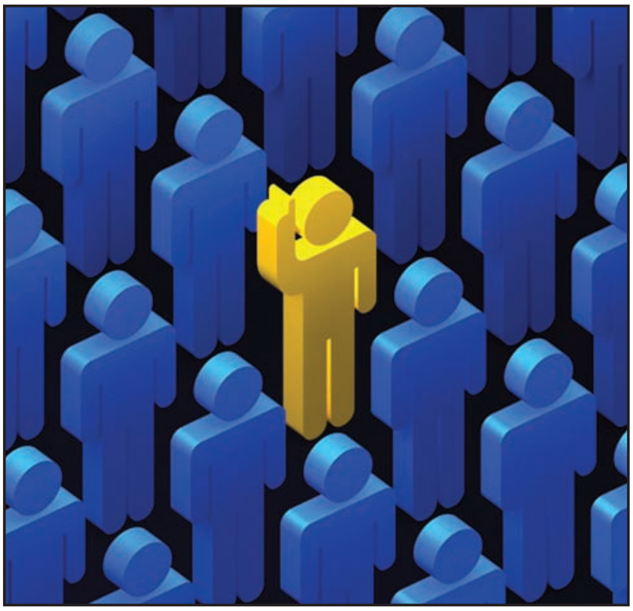
Vendor selection discussion

The decision to outsource a financing programme is the beginning of a process that will go from programme definition to partner selection and continue through implementation and programme management. As we illustrated above, a financing programme can have a profound impact on company financials as well as customer relationships and company reputation. To ensure that the impact is positive, it is crucial to select the right equipment finance (lessor) partner.

The right equipment finance partner can mean the difference between your programme's success or its failure. Simply stated, the selected lessor must be committed to providing an effective programme to the vendor by creating an effective partnership. At Key Equipment Finance we have found that, regardless of the geographic scope of the programme, there are some basic selection criteria applicable in virtually all situations. These include the ability to provide a consistent support mechanism, a wide range of products and services, flexibility to create tailored solutions and willingness to share some risk.

Capability and consistency in a lessor's ability to provide client support and service should be extremely important to a vendor. From the perspective of the vendor's customers, the lessor partner becomes a representative of the vendor. If the financing partner provides good service, it reflects very well on the vendor. On the other hand, if their service is poor, your customers are likely to associate that service with your company, which results in a diminished reputation, and possibly outright loss.

A global vendor relationship needs all of this and more. Successful programmes depend on lessor partners that not only provide significant global coverage but also have strong local support. This is important because programme effectiveness can depend just as much on knowledge about local customers and marketplace as it relies on knowledge of industry and equipment expertise. There is a lot of truth to the old adage that "all markets are local." An ideal equipment financing partner can combine its financial knowledge and



"glocal" experience to provide unique "local" solutions tailored to a specific client's "global" needs.

Many times through the years, Key Equipment Finance has seen competitors take a "cookie-cutter" or "one-size-fits-all" approach to vendor/dealer financing programmes, whether regional or global. Across our industry, these programmes have a high incidence of failure. In contrast, one of the major reasons that Key's global programmes are so long-lived is that we invest the time and resources to understand our partners. We believe it is important to understand our clients' strategies as well as their corporate cultures—with special attention to their sales and geographic cultures.

Conclusion

When strategically positioned, a global equipment finance programme can create a distinct competitive advantage. Too often, these programmes are commoditised and focus on offering the lowest rate. Partnering with an experienced lessor can help the vendor/dealer maximise the effectiveness of the programme, if the right partner is chosen.

While there are many specific criteria to consider in partner selection, the two most important are a lessor's willingness and ability to partner with its clients and the cultural fit between companies. Working together, vendor/dealers and the right lessor partner can create an equipment financing programme that will provide substantial and sustainable benefits to a company's strategic objectives.

Karen Larson, president and chief operating officer, Key Equipment Finance Global Vendor Services