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1 FOR 1 The Fundamentals Of Sound Financing

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Every dollar of assets that a business adds to its balance sheet requires a dollar of financing. Assets—such as inventory, equipment, accounts receivable and company vehicles—are plentiful, but financing—be it from product suppliers, banks and shareholders—is relatively scarce. An understanding of this concept is the cornerstone of good business management. Resellers should become familiar with all the options available to finance their businesses.

Supplier Credit

Suppliers, including distributors like Tech Data, are generally willing to provide some amount of credit to their customers. Resellers can improve their ability to obtain larger amounts of credit in several ways.

First, while your day-to-day business of pursuing leads and closing deals is understandably your primary concern, it also is important for you to provide suppliers with the information they need to make fair and sound decisions about your company. Help them by providing up-to-date financial statements for their confidential review, so they have all the information necessary to judge your credit worthiness. And remember, the best time to do this is now. When you're under the gun to close a deal and need extra credit immediately, it may be difficult for your suppliers to responsibly lend you additional financing on short notice.

Second, assuring that your payments to suppliers are made according to their terms of sales is critical. Paying on time and in the manner agreed upon are the easiest ways to gain trust and build a credit history with your suppliers.

Third, resellers also can utilize the credit worthiness of their end users to obtain more credit through leasing and assignment of proceeds (AOP).

Resellers should familiarize themselves with the simple task of engaging a leasing partner and use every opportunity to promote lease financing to end users. Since the leasing company will pay Tech Data directly for the hardware and software, this is a perfect way to increase financing for your business without impacting your Tech Data credit line.

The redirection of payment via AOP can be accomplished easily through a simply worded notification to a reseller's customer. In these instances, end users pay Tech Data directly while resellers, of course, maintain total control of the customer relationship. For larger deals, this is a great option to obtain additional, deal-specific financing.

Finally, another way to get additional financing from a supplier is to provide a Stand-By Letter of Credit (SLOC). This is a form of security issued to your supplier by your bank. It's a promise of payment by the bank if there should be default. This is a very cost-effective option and is easy to arrange.

Bank Financing

Every FORTUNE 500® business has bank financing, and it's just as important for resellers to have a banking relationship too. Tech Data has made it easy for resellers to obtain this type of financing through its business partners GE Capital Solutions, IBM Global Financing, De Lage Landen Financial Services and Textron Financial Corp. This third-party financing—also known as floorplanning or distribution financing—is not just a way to obtain more financing; in most cases, it's free for 30 days or longer.

Shareholders

Suppliers and banks like to see that business owners retain an investment in their businesses. This is primarily evidenced by the amount of shareholders' equity shown on a reseller's balance sheet. While there is no universal formula for the right amount of equity, in general those who provide financing will want to see that a reseller has "skin in the game."

Business owners and officers usually can increase the amount of financing obtainable from suppliers and banks by providing a personal guaranty. As a reminder, a personal guaranty can be rescinded at any time with no obligation toward indebtedness incurred on future purchases.

For more information on your financing options, visit www.techdata.com/credit or contact your Tech Data credit team member. #



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