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## Big channel deals require creative financing solutions

By Karen D. Schwartz, Contributor  
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Channel entrepreneurs are often great at coming up with creative solutions for customers facing a gnarly problem. What they're sometimes not so good at is putting together the capital to get the deal underway.

Even after exhausting all of the normal channels -- the bank, the distributor and even vendors -- it can often be tough to come up with enough cash to make it happen.

That's where a little creativity can get the ball rolling. Innovative financing programs -- programs that go far beyond the standard Net 30-day terms, [floor planning](#), third-party financing or [assignment of proceeds](#) -- can make a real difference for resellers, allowing them to grab larger deals or recover from financial straits.

"Today, everybody has credit limits, largely established based on their historical buying patterns and their inherent credit-worthiness," explained Scott Tillesen, director of [SMB credit at distributor Tech Data](#) in Clearwater, Fla. "Any order that would tax that is one where they would have to look for an alternative."

But that's where things get a bit murky. Vendors and distributors have different definitions of what constitutes "flexible" financing, and some are definitely more creative than others.

[Ingram Micro](#), for example, offers financing programs that base credit on the end user instead of the reseller. (Also see [Ingram Micro Hardware as a Service financing lets partners close bigger deals](#).)

### More on solution financing

[IBM offers quick-turnaround credit program](#) for VARs

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[Cisco to extend SMB leasing](#) through Ingram Micro partners

In many cases, the end user never even knows the situation has occurred, preserving the reseller's standing with the customer. These programs are particularly useful for resellers that can't qualify for the credit to take advantage of a specific opportunity, notes Kelly Carter, Ingram Micro's director of credit.

"We know we're getting the money directly from the end user, so the VAR doesn't have to credit-qualify for it," she added.

### Getting help from a vendor

Sometimes, distributors and vendors work together to provide creative financing options to [value-added resellers \(VARs\)](#). A program engineered by Ingram Micro, GE Capital and Cisco worked very well for [Western Data Group Inc.](#), a San Francisco VAR, when it wanted to fulfill an order larger than any it had ever undertaken.

"The order exceeded our existing credit lines with Ingram, so we opened up an additional line with GE Capital through Ingram Micro, supported by Cisco. It allowed us to fulfill that specific contract, and Ingram Micro coordinated the deal," CFO Ray Yoder explained. And because the terms were 60 days instead of 30, company executives felt secure in borrowing the extra capital.

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Vendors can also come up with creative financing options on their own. [Cisco Capital](#), Cisco's financing arm, has devised a creative way to allow VARs to install more unified communications solutions, via a 0% progress-payments promotion. When a VAR sells a qualified unified communications solution to a customer for more than \$50,000, Cisco will advance up to 80% of the sales price to the partner with no financing charges to the partner or customer for the first 120 days.

[Jon Jensen, CEO of Nexus IS Inc.](#), a Valencia, Calif.-based VAR, has used the program to good effect.

"It's cash that doesn't cost us anything -- cash that we can put right back into the business and use to continue to grow our practice," Jensen said. "We've been able to turn it into a leverage point to get customers to expand their purchases," he added.

Yet another hot product, offered by Tech Data in concert with [IBM Global Finance](#), allows resellers to get the financing they need within 60 minutes via the Internet.

Called [Flexible Credit](#), the program offers application and approval online so quickly that the reseller can use the credit line -- up to \$500,000 -- the same day to make purchases from a distributor. The amount becomes due to IBM Global Finance on day 30, but the reseller can choose to pay only one-third of the balance and defer the rest for another 30 days. After 60 days, the reseller can again choose to pay one-third and defer the rest for another 30 days.

"Of course, there will be some interest incurred at a normal competitive rate, but it doesn't damage their relationship with IBM because it's part of the program," Tillesen said. "With typical financing, if you slow-pay you jeopardize the relationship."

[IBM Global Finance](#) is somewhat of an 800-pound gorilla when it comes to reseller financing. In addition to the program it runs with Tech Data, the company offers so many programs that VARs can easily get confused about what's available. The good news is that there is probably a program flexible enough to solve any problem.

IBM's [Rapid Online Financing](#) is a prime example. It works similarly to the Flexible Credit program, offering up to \$500,000 worth of credit quickly via online application.

The program also allows resellers to quickly generate financing proposals, submit credit checks, produce documents and track payments via the Web, all without talking to anyone live. Partners can actually generate fully executable contracts in less than an hour, Jay Holbrook, director of worldwide channel financing at IBM Global Financing, said.

#### **When all else fails...**

Sometimes, nothing vendors and distributors offer seems to do the trick. That was the case with [Sayers](#), a small VAR in Mount Prospect, Ill., that recently experienced quite a bit of financial trouble.

The problem started after the Sept. 11 terrorist attacks, when credit departments reduced credit lines due to an expected economic downturn. As a result, Sayers owed Ingram Micro, IBM Global Financing and others millions of dollars it couldn't pay.

Sayers went through a restructuring in 2003 to clear out all debt, but by then, the company was considered tainted, and its regular financing sources didn't want much to do with it.

After researching his options, Sayers president Jim Martin turned to the last-resort financing option -- a third-party IT industry financier with innovative ideas and relatively poor terms. By signing with the company, [Global Technology Finance LLC](#) (GTF) of Newport Beach, Calif., Sayers was able to get back on its feet -- and eventually, back into the good graces of its other partners.

"We put together a program where GTF was carrying the receivable, buying the product [from distributors and vendors] and paying us a fee instead of the gross

product. It's creative, and it worked," Martin said. "We were able to collect down all of our accounts receivable, pay back our bank, and soon we were able to do business again. So even though I owed Ingram Micro, GE Access and others \$30 million, I had \$35 million in receivables and \$5 million in inventory, and as that liquidated, I had the funds to pay back the bank and my other creditors."

Creativity and flexibility above and beyond what others offer can be quite valuable for VARs, according to Paul Stemler, GTF's president.

"VARs are really sales and service companies, but they aren't good at financing," he said. "If you're a VAR, the most the banks will lend on your assets is roughly 75% or 85% of their value. If your margin is 10% and you can only borrow 80%, you are on the hook for 10%. And the more stuff you sell, the more broke you get. It's a liquidity trap, so you can't grow."

With GTF, the strategy is to rely on the credit quality of the end user instead of the credit quality of the VAR. VARs get 100% financing, and GTF holds the paper and projects for up to 150 days. The final piece of the puzzle is GTF's fee structure, which only charges VARs for capital when they are using it; when they aren't using it, they don't pay for it. And there are no credit limits, Stemler notes.

It would seem logical for Sayers, once it was in the clear, to eschew GTF in favor of original financing sources, but the firm chose to renegotiate more favorable terms and continue working with GTF.

"It's still more expensive than traditional financing if you look at it in terms of dollars, but in terms of the friction costs of having to set up credit lines and the amount of flexibility we have, it's worth it," Martin said. "Now, if I get a very large one-time order, I can do it easily. Whatever comes our way, we can fill. It allows us to do what we should be doing -- servicing and selling our customers."

But it's not always necessary to go to the lengths Sayers did to find a creative and flexible financing vehicle. It's just a matter of doing your research, Ingram Micro's Carter said.

"VARs should always ask questions by starting with their credit analyst, who can help direct them to the right alternative for their situation," she advised. "They shouldn't assume that there is nothing available."

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