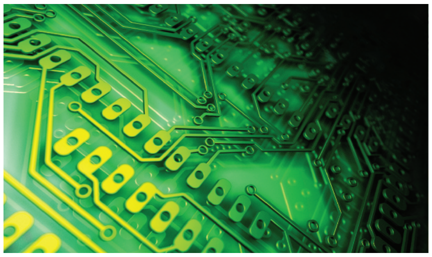

IT Channel Financing:
What it is and why it benefits VARs

By Tom Grathwohl, senior managing director of global and structured solutions, GE Capital, Commercial Distribution Finance

For companies of all sizes, managing working capital may be easier said than done. But it's even trickier for small and medium resellers in the IT industry, which don't have as much room to maneuver as their larger counterparts. A common challenge for resellers of this size is the struggle to fill the funding gap of 30-45 days between when the payment is due to their vendor and when the reseller is paid by the end client.

Fortunately, financing programs that address these challenges are becoming common across the IT industry. Reflecting the ever-changing landscape of the industry, players across the spectrum — from value-added resellers (VARs) to technology manufacturers to distributors and system integrators — can all ease their cash flow challenges by arranging for inventory working capital.

Open account terms vs. inventory working capital financing

Inventory working capital financing is an important element of a successful channel partner business model. By setting up arrangements with a finance company to provide dependable financing to channel partners, technology vendors effectively increase their own pool of working capital. They also receive a predictable payment stream from a reliable, high-quality financial institution.

Providing an alternative to standard open account terms, which typically require payment in full within 30 days, inventory financing programs allow VARs to address the cash conversion cycle from inventory procurement to accounts receivable collection. VARs that use inventory working capital financing can also reduce their bank borrowing costs and may also benefit from a more efficient billing and collections process.

Here's an example of a typical inventory finance program: An anti-virus and email security company offers 60-day interest-free repayment terms to reseller partners who purchase products through certain U.S. distributors. The financing program provides qualified VARs with streamlined credit approvals, simplified documentation requirements and generous credit capacity.

And here's another example: A finance program arranged by a networking solutions manufacturer provides qualified resellers with repayment terms of up to 90 days. That allows ample time for product delivery, installation and client collections.

Short-term accounts receivable (STAR) funding

As the supply chain evolves, institutions are creating alternative financing models that support companies' changing strategies and goals. Short-term accounts receivable (STAR) funding provides additional credit capacity for VARs to bid on contracts for large commercial and government end-users. VARs can increase their sales pipelines by competing for larger contracts with confidence while managing smaller contracts within their existing credit lines.

This option can be used in a wide variety of end-client industries, including healthcare, retail, finance and telecommunications, to name a few. There are additional programs for VARs that do business with federal, state and local governments as well as with publicly funded educational institutions. The financial health of the end-client is important for credit approval under the STAR program.

One Southeastern provider of enterprise IT solutions to public sector clients has a credit line that increases to accommodate federal sector business orders in the peak months of September and October. STAR funding allows the company to effectively compete for large new contracts without impacting its existing line of credit.

Conclusion

In today's challenging environment, it's essential that the channel builds and maintains customer loyalty. Vendors are making it easier than ever for VARs to expand their financing options and develop new reliable sources of financing.

Financing with GE Capital, Commercial Distribution Finance

GE Capital's Commercial Distribution Finance (CDF) business has been offering inventory finance and accounts receivable (AR) financing for nearly 30 years in industries such as technology, electronics, appliances, outdoor products, agriculture, trailers, music and HVAC. Its dedicated expertise in the inventory financing business and extended terms address cash conversion challenges and support cash flow relief for companies across the IT supply chain. Combined with CDF's 24/7 online account management tools and analytical insights, the program can help businesses succeed in today's low-growth economic environment.

As a business that lent nearly $32 billion in financing to more than 30,000 manufacturers, VARs and distributors across North America in 2011, CDF is well positioned to provide the flexible financing terms that match the technology industry's growth cycle. CDF provides financing to vendors and their channel partners in the form of inventory and AR financing as well as asset-based lending, private label financing, collateral management, e-commerce services and related financial products.

For more information, visit **www.gecdf.com** or follow company news via Twitter (@GEInventoryFin).