AILCO
EQUIPMENT FINANCE GROUP

Negotiate **Structure**, Not Price!

Author: Justin Masterman, Business Development Manager

I think it's safe to say that we all would prefer the overall best value on all the goods and services we purchase. Unfortunately, we live in a world mixed with liars and thieves. That very notion has nurtured a continual skepticism about the value we are going to receive in the things we buy. And that reality extends into the B2B, or business-to-business world as well. Professionals tasked with the responsibility and authority to make purchases on behalf of an organization approach the market with equal care to not only avoid overpaying, but outright fraud. Consequently, most transactions that take place often hone in on price as the primary negotiating point. Our world of finance is no different, and that "price" is universally referred to as the "rate." The challenge for finance professionals is the same as any other business; how do you preserve your profit margins while "selling" your *value.*

One of the reasons this concept is challenging is that businesses who are applying for credit are naturally prone to zero in on price, as it provides an easy method of comparison among the finance proposals they are receiving from competing firms. Ultimately, what ends up happening is that the financing rate becomes too much of the topic of discussion. Other factors are assumed to be equal, or "close enough" anyway. And that is where buyer's remorse is conceived.

Ideally, a company should be approaching any credit application for equipment financing with a few things in mind.

1. Understand what it is you are purchasing and how quickly that asset will depreciate with normal use in your business operations. Be realistic in your expectations for the length of term that you are requesting but prepare yourself to communicate your position regardless.
2. Be cognizant of what type of finance company you are seeking financing from. Conventional bank financing is going to typically provide the lowest cost of financing in most markets, but may come with some potential disadvantages as well, such as turnaround time or the breadth of the underwriting process. Alternately, a slight premium may be warranted to accommodate 100% financing of both hard and soft costs of a transaction and an independent finance company, like AILCO, may be the best option available.
3. Be realistic about the actual implications of what two different rates mean for the size transaction you are dealing with and identify if this is truly meaningful enough to spend time negotiating. The actual difference between 7.50% and 8.50% is significantly less when you are financing a $10k piece of equipment over four years versus a $3 million piece of real estate over twenty.
4. Most importantly, be prepared to negotiate on structure, not on the rate of financing.

Every company has its own set of needs, some relate to the cash flow position they find themselves in (good or not so good). Other needs are based on deadlines – perhaps related to future contract fulfillment or maybe it is imperative to replace equipment as soon as possible to minimize downtime in production. Maybe your organization uses custom machinery and needs special accommodation for financing of non-readily marketable assets. Perhaps your organization's needs are related to a past, present or anticipated change in ownership structure and the realigning or refinancing of assets within the organization.

These are all ways to potentially identify and procure value in exchange for the rate that your finance company is proposing. Engaging in conversation about some of these peripheral topics can often provide alternative areas of negotiation, focusing on term and structure. Certainly, not every transaction needs to be negotiated in every way possible. But, if you are in the practice of routinely communicating your needs to your leasing representative, you may find that the rate will no longer be the only way to differentiate between proposals but that you will ultimately feel confident that you are obtaining the best overall value.