



Equipment Financing via the Internet

BY JAY FUDEMBERG

Equipment financing and moving a ton of gravel: What do they possibly have in common? Just as it makes sense to use a bulldozer (rather than a shovel) to move the gravel, it also makes sense to use the power of the Internet to enhance how your company finances its equipment.

As with the ton of gravel, there are good reasons to pick the most advanced tool – speed, ease-of-use, and management control are just a few. Even though making the transition from a familiar, traditional process to the Internet may seem daunting, the switch is easier than you think. It is also one that can bring tremendous benefits to your company, including significant savings in time, effort, and cost.

The Equipment Finance Marketplace

The equipment finance marketplace brings borrowers and lenders together online, providing the comprehensive tools and services needed to conduct equipment financing transactions. The best marketplaces deliver value to their clients through a variety of features, such as:

- 1) a neutral, Internet-based forum that ensures broad access to sources of capital, 24 hours a day, seven days a week, 365 days a year;
- 2) professional services provided by domain experts who understand both equipment financing and the unique needs of construction firms; and
- 3) easy-to-use, online tools that decrease workload, lower costs, and improve decision-making during all stages of the process by:
 - enabling simple, but accurate, analysis and ranking of disparate, complex proposals;
 - providing standard, neutral, legal documentation that eliminates time-consuming negotiations between lender and borrower; and
 - tracking loan/lease portfolios for more effective management throughout the asset life cycle.

Why Change the Status Quo?

Without the Internet, those responsible for equipment financing are forced to spend a good part of their day in meetings, on the phone, and with their calculators. With time at a premium, it's just not practical for a construction financial manager to talk with the hundreds of potential funding sources that may or may not be interested in financing a particular transaction – or to monitor lenders' changing appetites for, and aggressiveness on, particular deals.

In addition, meetings with multiple lenders or intermediaries can eat up countless hours. And, more importantly, the inability to compare different bids with disparate terms makes determining the true 'best-fit' bid for each transaction difficult.

These difficulties, and the sheer complexity of the process, continue through the negotiation of documents, which can also take substantial time. Even after construction has begun, managing transactions to maximize various economic options and meet notice dates often becomes a hit-or-miss proposition, if/when key personnel change jobs or contracts and records are misplaced.

Why Move Online Now?

Simply put, the Internet enables business people to achieve better results more easily, more quickly, and with less cost. It is changing how construction companies execute core business processes – from planning and design through purchasing and project management. Today, online equipment finance marketplaces are empowering construction financial managers to participate in this "new economy" and, at the same time, achieve superior financing results with less effort.

Benefits of the New Marketplace

Combining an efficient marketplace with Internet-based tools brings five major benefits to construction borrowers:

- broader and continuous access to funding sources,
- best-fit terms,

- time savings and lower processing costs,
- enhanced management control, and
- assurance and expert support.

Let's look at each of these benefits in greater detail.

Broader Access & Best-Fit Terms

The better equipment finance marketplaces facilitate direct access to multiple sources of capital. With more than 200 participating lenders, marketplaces can help borrowers build relationships with new potential lenders, or as one construction financial manager put it, "... institutions that have never called on us and that we wouldn't have thought of when placing debt."

In addition, these marketplaces also uncover today's best-fit funding source for each transaction. This is a real advantage for companies seeking financing. Lenders' priorities change as their loan portfolios change; consequently, equipment finance marketplaces provide tools for lenders to define preferences and target transactions.

For example, lenders who want to finance heavy civil or major roadway projects will see those particular requests as soon as they are posted. This means construction borrowers have access to a broad universe of self-selected, interested, and competitive lenders.

Of course, just as you, your company's financial manager, can develop new funding relationships, a good marketplace also enables you to enhance and deepen pre-existing relationships with favored lenders. Construction firms who are pleased with their current funding sources can direct them to their online financing requests. By executing the transaction online, both parties receive the benefits of streamlined evaluation, workflow, and management control.

Time Savings & Lower Processing Costs

Online equipment finance marketplaces offer easy-to-use, comprehensive tools that can save significant time at every stage of the equipment finance transaction. According to figures released by one online equipment finance marketplace, an Assistant Treasurer in a mid-sized company, who normally puts 10 RFPs out to bid, can save nearly 700 hours annually by using an online marketplace!

While different marketplaces offer different features, the better ones offer a comprehensive suite of Internet-based tools. By using such a site, construction borrowers can:

- 1) Continuously access a broad base of funding sources, without the time-consuming, repetitive meetings traditionally required.
- 2) Easily create and widely distribute requests for financing.
- 3) Rapidly analyze the different bids received, comparing multiple loan types, structures, and terms on an

apples-to-apples basis in order to rank all proposals on such criteria as Internal Rate of Return, Present Value, and cash flow.

- 4) Utilize standard neutral documentation or attach customized legal documents, thereby reducing time-consuming negotiations.
- 5) Automate the tasks and workflow for those involved in the financing process.
- 6) Build a single, online archive for transaction information to share with the appropriate individuals in the organization throughout the process (from initial evaluation to asset disposal).
- 7) Track the loan/lease and obtain important notifications throughout the life of the transaction.

Enhanced Management Control

As the financial manager for your company, issues of control and consistency are ongoing challenges, especially as they relate to equipment financing. Consequently, the ability of financial managers to understand and manage what transactions are occurring across company units and over time is critical. Online equipment finance marketplaces give managers the tools to control what is financed, along with when, how, and by whom. Additionally, these tools can be used on a stand-alone basis or integrated with other enterprise systems.

As well, good online marketplaces offer standardized forms and repeatable procedures to guarantee consistent process and workflow rules. In fact, construction financial managers can use these online workspaces as a single, electronic point to monitor what their company is collectively financing, be it hundreds of computers or dozens of bulldozers. Regardless of where the equipment is located or when it was financed, all information is easily visible in a secure archive.

Electronic transaction books and online asset portfolio management tools are particularly useful post-commencement, when construction firms risk a tremendous amount of money should they miss key option or notification dates later in the life cycle of the loan or lease. A good equipment finance marketplace will provide users with automatic, electronic notification of such dates throughout the life of the transaction.

Assurance & Expert Support

Financial professionals appreciate the benefits that come with the discipline of the open market. In potentially complex equipment financing transactions, it's also reassuring to have unbiased, expert assistance available throughout the process. Again, a good equipment finance marketplace will provide experienced domain professionals who can advise clients on the right financing structure or point out current financing insights, such as the value of a new floating rate index.

Other services can include professional support to manage all documentation through a single point of contact and to facil-

itate each transaction (from award to lease commencement). These additional services further reduce closing time and expenses for all involved.

More than an Auction

As you can see, these marketplaces are far more than just auctions or matchmakers. The best offer entire platforms for managing transactions, allowing financial managers to automate complex business processes and integrate equipment financing into strategic workflows and management controls.

Security

As business in general becomes increasingly involved with e-commerce, concerns about security and privacy abound. This is a serious issue, so leading online e-commerce companies take serious measures to ensure the privacy of their users.

At most equipment finance marketplaces, a borrower's private information is stored behind a secure firewall and transmitted only in strongly encrypted code; this information cannot be released without the borrower's approval. Just as you would lock up the equipment yard, these marketplaces put electronic locks on your confidential data.

The Cutting – and Competitive – Edge

Construction financial managers know that cutting costs, saving time, and making the right decisions are major competitive weapons. As construction companies maneuver for greater margins and a competitive edge, today's Internet-

based equipment finance marketplaces offer a powerful strategic weapon by streamlining the process and producing superior results.

Like the bulldozer moving the gravel at the beginning of this article, a good online equipment finance marketplace gets the job done – more efficiently and effectively. By placing your next financing request through one of these sites, you can expand your access to lenders, save time, lower costs, provide enhanced management control, and increase the speed with which you can act and react.

Innovative construction companies who are using Internet-based equipment finance marketplaces are already realizing these benefits, and more. Shouldn't your company be, too?

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A Case Study: It's This Simple!

Let's follow one contractor through the equipment financing process using an online equipment finance marketplace.

ABC Construction wants to lease 12 new bulldozers. The construction financial manager goes to an equipment finance marketplace and registers online. She then prepares and submits an RFP, using a simple, online form. Supporting documents, such as equipment invoices, may be scanned and attached to the RFP for online access.

The financial manager can elect to release the RFP into the broad market of lenders or may specify a particular group of lenders. Funding sources that have requested to receive the type of transaction specified in the RFP will prepare proposals and send them back to the contractor's workspace at the marketplace's Web site.

While the universe of participating funding sources is very large, ABC's financial manager can expect to receive an average of 4-6 competitive bids, depending on the company and the type of transaction. She is then able to compare and review those bids using the marketplace's powerful analytical tools.

Once ABC awards the transaction to a lender (usually with a simple click of the mouse), the execution of final documents can be handled in several ways, depending upon the manager's preference. One option is to choose the

standard, neutral contract provided by the marketplace and pre-approved by lenders; this can be executed online, via fax, or by mail. Alternately, the finance manager may want to use ABC's own customized documents.

In this case, she would call on the transaction management services offered by professional experts at the marketplace, negotiate terms and language via phone, and exchange finalized documents in hard copy. Either way, the equipment finance marketplace provides the necessary support services to ensure the successful close and funding of the transaction.

Also of note, on most of these marketplaces, there is no cost to the borrower for listing a transaction. It is the lender who is charged a small transaction fee upon the successful funding of the transaction.

Bonus: Two years later, ABC's construction financial manager is delighted to be reminded by e-mail that the first early buyout option is pending. She is able to analyze and execute this option with a click of the mouse.

This is a typical example of how equipment finance marketplaces work. As you can see, the process is fairly straightforward, so there's little or no learning curve. The hard work of analyzing and ranking the financing proposals is done automatically. Therefore, staff with any level of expertise (from the savvy financial professional to a busy manager who knows little about equipment finance) can take advantage of this powerful online tool.

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