Integrated Solutions For RETAILERS

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Consider Financing Your Next IT Upgrade

Technology upgrades are similar to new vehicle purchases: Depreciation occurs rapidly, and improved options are available a few months later. How can you keep up?

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Keeping up with advances in technology is difficult, especially when IT budgets are limited. Several financing options exist to help you remain competitive and keep costs down. Sig Muller, director of retail business development at Winthrop Resources Corp., and Neil Watanabe, executive VP and CFO at Anna's Linens, discuss the financing options available for retailers that yearn to use technology to grow their businesses and provide better service to their customers.

How likely are retailers to finance their technology solutions?

Muller: Nationally, retailers are twice as likely to lease technology as compared to all other industries. Other fixed assets or real estate do not have the same characteristics as technology. Technology is a unique asset; the POS hardware that retailers buy today will provide more functionality at a lower cost tomorrow. The CRM (customer relationship management) or merchandising software installed today will be more robust tomorrow. Because technology is a key enabler of retailers' business strategies, the winning retailers are those that most effectively use technology to compete in the marketplace. The right technology financing strategy awards the savvy retailer a competitive advantage. Sometimes the only way retailers can accomplish this is to finance their technology solutions.

Watanabe: Retailers recognize that the growth of same store sales and the improvement of financial performance are important business objectives. Continual refinement and improvement using technology allows retailers to maintain their competitive edge in providing customers with both value and customer service. As a result, there is a healthy demand of retailers looking to finance POS hardware or technology needs for their supply chain.

How do most retailers pay for new technology solutions, and what options exist for them?

Muller: This may sound obvious, but the most important thing retailers can do is develop a financing strategy to acquire assets and manage expenses. Retailers spend large amounts of time and effort on their business plans, merchandising plans, and IT plans. Too often, financing methods are based on historical company patterns and are not an overall financing strategy.

Retailers should spend cash on opening new stores and use bank lines to purchase real estate — things that will grow your business and/or appreciate. You should lease technology because it provides flexibility with a dynamic and mission-critical asset. Align your financing strategy with the underlying performance of the asset as well as your organization's goals.

Watanabe: Traditionally, retailers have a revolving line of credit, which can be unsecured or secured leveraging company assets (e.g. inventory), with a bank. This type of financing provides the flexibility to borrow during the times you need and reduce loans based on your cash flow. However, managing credit does involve ongoing maintenance and administration. Furthermore, maintaining a banking line usually requires reporting through compliance statements and certifications, commonly referred to as covenants. Accessing private or public equity markets is often an option for retailers' capital expenses. This option allows retailers to raise larger funds to accelerate expansions, which in many cases include technology investments. When leasing certain fixed assets, retailers have the flexibility to use existing cash or a credit facility for those assets that cannot be leased, such as inventory or other operating expenses. Leasing allows retailers to allocate their cash payments for specific assets during the period that those assets deliver financial benefit.

What technologies do retailers tend to lease or finance?

Muller: Retailers primarily finance those technologies that constantly change. Change can hit a retailer from many angles: consumer trends, industry standards, PCI (payment card industry) compliance, data security, or your competitor implementing a new customer loyalty program. Retailers offset the risk associated with this rapid, unplanned change — as a technology protection plan — by leasing.

Watanabe: Retailers usually consider leasing POS hardware or other IT equipment that is critical to supporting their core enterprise-wide systems and network. Leases are an alternative for items such as laptop computers, copy machines, printers, and fax machines, which have a high level of obsolescence over a short period.

What are the three most important features a retailer should look for when financing technology solutions?

Muller: Retailers should ask themselves these questions when looking for a financing solution:

- Does financing this technology align with our overall business strategy (i.e. growth plans, customer initiatives)?
- Does the financing method enhance or impede our ability to respond to change?
- Do we have a financing partner that understands the retail industry, the relevance of technology, and our business needs?

Watanabe: A retailer should consider three items:

- Determine the structure (e.g. capital, operating) of the lease, which determines the accounting classification and reporting method on the retailer's profit and loss statement.
- What are the terms of the lease, and how do they compare to the lifespan of assets purchased? It's important to understand what happens at the end of the lease — is a buyout an option, and if so, how is it determined?
- Think about the ease of administration in processing payments, the recording of the related expense, and the tracking of financed items.

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