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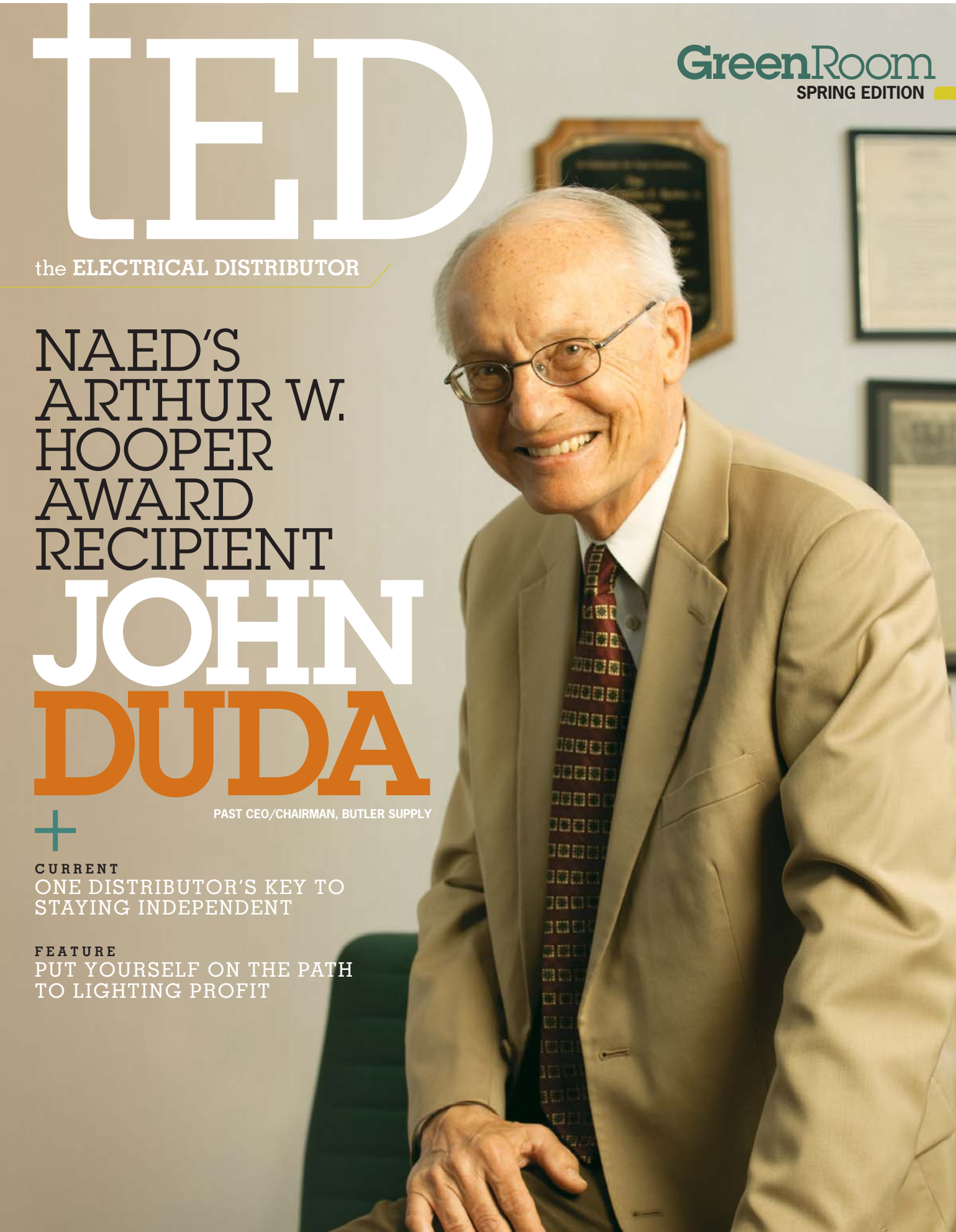

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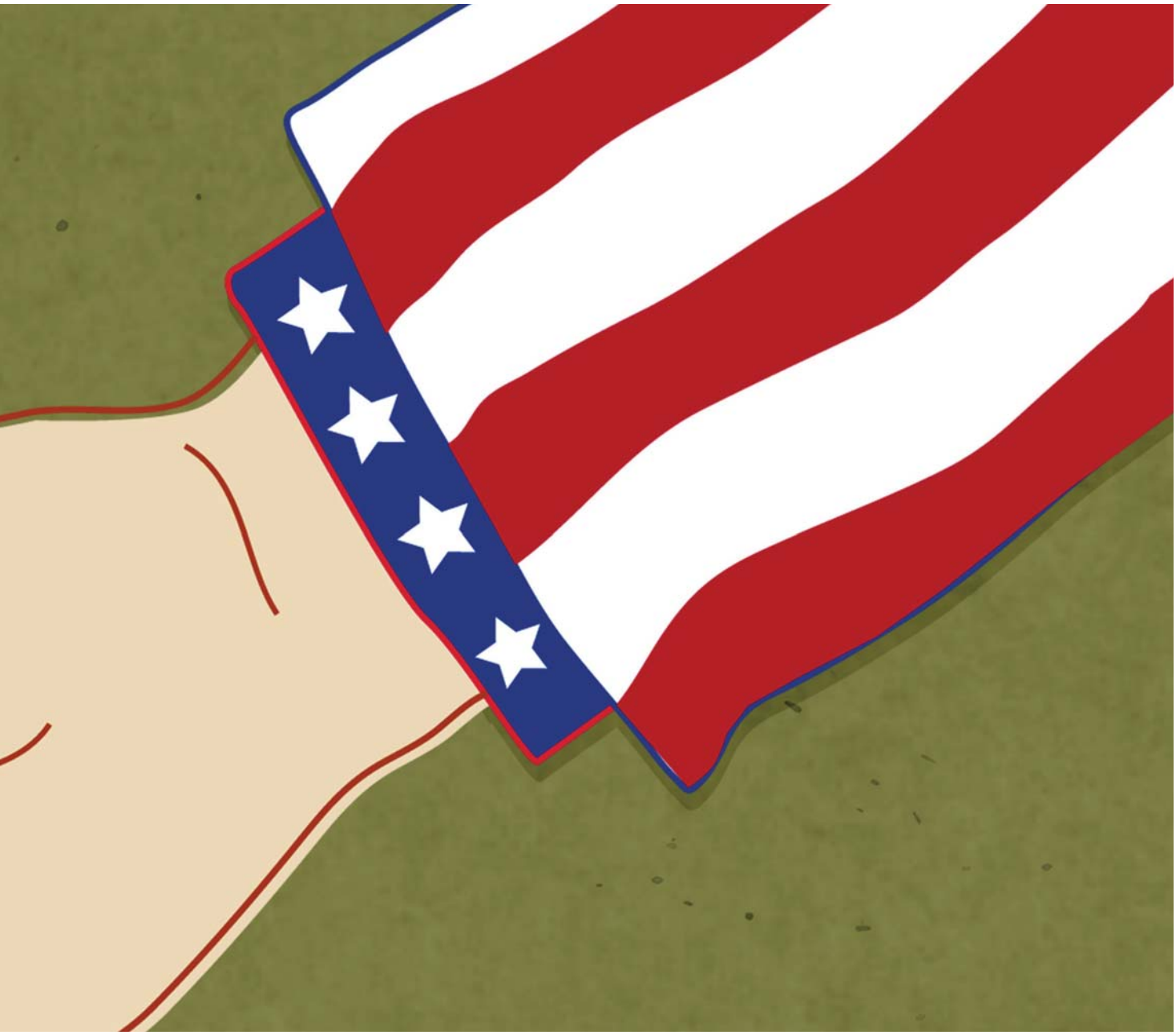
IS FINANCING RIGHT FOR YOU?

Experts weigh in on opportunities and best practices in energy-efficient project financing as well as the how-tos of building this value-added enterprise into a business. **by Susan Bloom**

IN FEBRUARY, PRESIDENT OBAMA outlined a new plan designed to increase energy efficiency in commercial buildings by 20% over the next 10 years. Known as the *Better Building Initiative*, the plan aims to reduce corporate America's energy bills—which currently account for more than 20% of the nation's energy use—by roughly $40 billion a year through a series of strategies that include workforce training in energy auditing; best practices sharing and recognition; and tax breaks, grants, and other financial incentives. Among the tactics behind the initiative that the White House hopes will lead to "a tenfold increase in commercial retrofits" is a new financing pilot program run through the DOE, which is expected to guarantee loans for energy-efficient upgrades at hospitals, schools, and



other commercial buildings. Just as the federal government recognizes the power that financial incentives can have on accelerating energy-efficient upgrade activity among the nation's businesses, industry experts agree that financing can be a powerful tool within an electrical distributor's arsenal. "Without a doubt, there's a huge opportunity for electrical distributors to offer financing as an extension of their existing business," confirmed Joseph Brakohiapa, CEO of Clean Power Finance (cleanpowerfinance.com), a provider of integrated software, services, and financing solutions for the solar industry. "In a nutshell, this service can help distributors secure more projects, increase revenues, and attract and retain more customers."

By all expert accounts, only a small slice of the electrical distribution community currently has an established financing arm, as many distributors contend that they're in the business of supplying electrical products—not capital, banking services, or risk management. Glenn Goedecke, executive vice president of sales and marketing for Mayer Electric in Birmingham, Ala., estimated that "financing is probably offered by less than 10% of all electrical distributors today." Doug Borchers, vice president of Sidney, Ohio-based Dickman Supply and director of its Green Energy Solutions Division, hazards an even more conservative guess, offering that "probably less than 5% of all distributors offer financing."

But distributors should definitely take another look at financing and consider fulfilling this apparently unmet need in the marketplace.

According a 2010 Institute for Building Efficiency (institutebe.com) survey of more than 2,800 corporate executives on global barriers to energy efficiency, respondents cited "inability to finance" as one of the key reasons why they were unable to capture the full potential of energy savings in their organizations.

Fortunately, with the financing arena offering many different points of entry and exit, those who do decide to venture forth into the financing realm can do so along a wide spectrum of commitment levels.

For instance, said Justin Emanuel, supplier relations manager for WESCO Distribution in Pittsburgh, "WESCO has not traditionally provided financing for customers as an organization, but we'll certainly work with customers as appropriate to assist them in their efforts to obtain financing."

Other distributors have pursued varying levels of involvement based on their resources, skill, and comfort level. Borchers confirmed that his firm's entry into the financing business in 2007 represented an evolution of activities it was already undertaking. Following the availability of the Commercial Building Tax Deduction through the *2005 Energy Policy Act*, Borchers' staff became focused on helping customers gain access to these tax credits and other efficiency-related incentives and utility rebates. "Financing became a natural extension of what we were already doing," said Borchers. "It was low-hanging fruit—we didn't even need to stand on our toes to get it."

According to Stuart Jaeger, manager of St. Louis, Missouri-headquartered Graybar Financial Services (GFS), Graybar has been offering equipment leasing and project financing to customers through its equipment leasing subsidiary, GFS, since 1986. "We specialize in providing competitive, value-added financing solutions to commercial and state/local government customers that are interested in upgrading their facilities so they can be more energy efficient," said Jaeger, adding that, initially, GFS was created to support the communications reseller market, but over time the business has evolved. "While we still finance transactions such as communications and data equipment, we're very focused on pursuing opportunities related to energy efficiency," he noted.

Steve Byrne, COO of Austin, Texas-based Facility Solutions Group (FSG), explained that FSG has offered financing through third parties and in-house sources for energy-efficient upgrades since the early 1990s.

"We got into financing as a response to our customers' needs," he said. "Since we're often involved in the installation as well as the sale of the product, it made sense for us to take the next step and work with the customer on paying for it. We have always promoted energy-efficient products and applications for our customer base and, while they understood the benefits, they often needed a creative way to get the projects completed." For FSG, the development of a financing arm represented the critical element its customers needed to bridge that impasse.

WHY OFFER FINANCING?

According to Byrne, "Financing is another value-added service that creates a stronger bond with the customer."

"The availability of financing enables a distributor to have another conversation with a customer beyond energy efficiency and allows distributors to control the conversation in a way they haven't before," agreed Brakohiapa. "Ultimately, the ability to offer financing will help distributors sell more products, turn the inventory in the warehouse more frequently, and deliver on commitments to manufacturer partners. It will also extend to distributors' contractor customers and give them another set of tools to be successful in the field."

Goedecke concurred that "financing provides another option for the customer, particularly in a market where distributors are regularly competing with ESCOs that offer performance guarantees and utility providers that finance retrofit projects through the customer's monthly energy bill."

In addition to offering customers another source of funding, Borchers agreed that the addition of financing services to a distributor's toolbag will help in the competition with ESCOs. "ESCOs took some distributor business away by being astute and proactive in this area and proved that if we don't provide this service to customers, someone will come in from outside the industry and do it for us," he said. "Distributors really need to be able to get out there and tell the financing story. We can't just wait for orders or conduct business as usual anymore."

THE MECHANICS

Depending on their skill and background, distributors can participate in the financing game at any one of a number of places based on their level of comfort.

"Unless a distributor has a strong partnership with the installation arm and ready capital resources, it will likely feel that the risk and effort of project financing is outside of its comfort zone," noted Byrne. For that reason, some distributors elect to partner with an established provider, such as a bank.

For Dickman Supply, its local Chase Bank had a qualified equipment financing representative on staff who took the time to understand the upgrade process

and commit to partnering with the distributorship to underwrite loans on qualified efficiency projects.

"Our team will conduct the audit, identify the savings opportunity, and determine the cost of the project—net of all financial incentives such as federal tax credits, utility rebates, and state grants," Borchers said. "Then Chase will quote us a rate factor against the net project cost and determine the monthly payment that a customer would incur on, for example, a three-year capital lease."

Though Mayer Electric is currently investigating potential avenues for financing projects internally and would likely set up a separate company in order to conduct that business in the future, to date the company has elected to present financing through a local or regional banking entity that's willing to consider credit risks such as retrofits.

"Any retrofit project with costs that exceed $50,000 typically becomes a finance opportunity, and that's when we often extend it," Goedecke said. "We've seen most finance opportunities occur when the customer chooses to include HVAC, advanced building control systems, and lighting in the package. When financing delivers a five- to seven-year payback, it all becomes a possibility."

Borchers offered an example of a typical financing scenario to help demonstrate its mechanics: "Take, for example, an upgrade project costing $100,000 that has a net cost to the customer of $50,000 to $60,000 after all available tax credits or utility rebates are applied. Our bank, Chase, would deliver to us a rate factor for that day that gets applied against the net cost. It could be something like .0329, which translates to the customer making a monthly payment of $2,000 for a three-year capital lease.

"We would then determine the energy savings on the project, which could be $6,000 per month," he continued. "In this case, the customer's monthly cost for the loan is $2,000 and its monthly energy savings is $6,000—which means the customer can pocket the remaining $4,000 or put it toward the loan. We find that the financials best explain the deal and help the customer agree to pursue the project—using either our capital or its own."

In many cases, Borchers said, when customers have expressed interest in bank financing because they reportedly "had no budget," they ultimately found internal capital to pay for the project. "We accept that sometimes the financing exercise serves as validation that it really is a high-return project for them to undertake," Borchers explained. "Even in those cases, there's still value in being able to offer financing."

At another level of involvement is Clean Power Finance, which has been engaged in solar financing since 2006.

"The financing process can be complex and the concepts esoteric," said Brakohiapa, "so we see it as our job to help simplify things for the customer. But distributors can get as involved as they want, and we see this on our platform at CPF, which connects an end-customer to an established lender, extending additional guarantees above those offered by manufacturers to minimize risk, making warranties on the workmanship of downstream contractors, and taking a more proactive role in designing financing strategies to enhance their own position.

"For instance," he continued, "the distributor can leverage a platform like CPF to create competition between loan sources and then help the customer to evaluate the best financing program for its needs. This type of activity can help a savvy distributor retain more control over the process, add additional value for the customer, and thereby enhance its own brand equity in a competitive market."

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>
> —**Joseph Brakohiapa**, *CEO of Clean Power Finance*

GETTING STARTED

Industry experts all agree that, while establishing a financing arm doesn't necessarily require a degree in economics or rocket science, it does require bright individuals who are skilled in at least the basics of finance.

"Financial sales require knowledge of key metrics like return on investment, cost of capital, cash flow, and net present value," noted Byrne. "You also have to have good risk assessment skills and a focused credit and collections department to manage the receivables."

"You must be able to speak to a C-level executive in the language of business and state a financial case—they don't want to see a product presentation," added Borchers. "At their level, the project will happen if the numbers speak for themselves."

Jaeger noted the need for a strong customer orientation. "While it's beneficial for an employee to have an equipment leasing or finance background, it isn't mandatory; we can train for that on the job," he said. "What's most important is that employees have a 'customer first' mentality, are dedicated to driving customer satisfaction, and possess a strong business and work ethic."

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THE RESULTS

Distributors that offer financing report that this service has strengthened their business on many fronts.

"Customer response to Graybar's financing program has been very favorable and has resulted in increased sales, repeat business, and a competitive advantage," Jaeger said. "Offering a financing option to a customer is a great way to overcome a budget constraint, and we're told that by having our own financing program, we make the equipment acquisition process simple."

Byrne confirmed that "financing has helped customers say 'yes' to what they knew was a good investment for their business and offered a creative financial way to pay for it. For the right customer, our financing services are the factor that helps get the project approved and installed and it also helps cement better long-term relationships."

Borchers contends that financing has definitely generated more customers for Dickman Supply. "Before, we traditionally did business with customers that were located within 30 miles of each of our branches," he said. "But since we began offering financing services, we have started picking up customers that are 50 miles away or farther that we hadn't even called on before. It was the service that was in demand and customers appreciate that we can bring it to them." As a result, Borchers said, "offering financing has allowed us to draw 'bigger circles' in our market than ever before."

"It's a really exciting time across the industry," concluded Brakohiapa. "By leveraging a platform that offers financing services, distributors can drive more sales, create value, differentiate themselves in a commodity market, and retain a loyal customer base. You constantly have to innovate in our competitive market; financing platforms can help distributors accelerate their business strategy." ■

Bloom, *an 18-year veteran of the lighting and electrical products industry, is a freelance writer and consultant. Reach her at susan.bloom.chester@gmail.com.*

Avoid the pitfalls of financing

Although it's an attractive business for distributors to consider investing in, experts agree that there's no room for error when it comes to offering financing. Our experts share tips on some pitfalls to be wary of as well as ways to enhance the likelihood of success when building a financing arm:

• **Do your homework.** Whether attempting to fund projects internally or electing to offer financing through an already existing source such as a bank, "you really need to understand the banking model and the formula of financing as well as concepts like risk and collateral," said Glenn Goedecke, executive vice president of sales and marketing for Mayer Electric in Birmingham, Ala. "It helps to sit with your bankers or financial sources in order to understand their world—what they need from a deal and what protects them."

Doug Borchers, vice president of Sidney, Ohio-based Dickman Supply and director of its Green Energy Solutions Division, agreed that entry into this arena requires planning and research and that it helps to find a trusted banker. "Start with your own bank; someone in charge of equipment financing would be the contact," he said. "And while the banker trains you on financing, you can help train the banker on the upgrade opportunity and some of the more popular product upgrades being done in the marketplace today."

Joseph Brakohiapa, CEO of Clean Power Finance (cleanpowerfinance.com), similarly advised distributors to "seek the expertise of those in the field when getting started, then choose a financing partner wisely. Their motivations and yours must be aligned and you need to have a common objective."

• **A good audit is key.** A financing analysis and payment schedule is only as good as the strength of the audit it's based on, so experts recommend that distributors conduct a thorough audit and verify the energy savings. "Make sure you qualify the opportunity to avoid leading the customer, your accountants, or the bank astray," said Goedecke. "If the distributor doesn't do a good job on the energy audit and the savings aren't verified, the deal could blow up right there. This is why auditing beforehand and then metering the project after installation are critical."

• **Risk goes with the territory.** "You always run the risk of a customer defaulting, so there's heightened concern and attention paid to projects that we finance," explained Steve Byrne, COO of Austin, Texas-based Facility Solutions Group (FSG).

Stuart Jaeger, manager of St. Louis, Missouri-headquartered Graybar Financial Services (GFS), added, "Financing requires a fair level of expertise and is fairly capital intensive; there's also a certain element of risk involved, as is the case anytime one extends credit to a customer." To be successful in financing, he said, "you have to be comfortable working in that type of environment."

• **Be a good listener.** "Our job as distributors is to do the necessary need determination on the part of customers to determine whether financing is the best route and help them understand both the pros and cons," Goedecke said. "Good distributors provide solid advice and make sound business decisions in coordination with the customer so that both share the risk. The distributor needs to be empathetic to the scenario, as if it were their own company, and conduct the necessary follow-up to make sure the customer is still happy with the decision down the line." —*S.B.*