From asset finance to 'access' finance

The emphasis on financing is turning from pure asset financing to 'access' financing as mainstream agriculture, manufacturers and construction companies look for ways to increase the efficiency of their business with a challenging economic environment placing pressure on operating margins.

skeeze via pixabay

This according to Toni Fritz, head of vehicle and asset finance at Standard Bank, who points out that the prevailing economic climate has led to assets, particularly yellow metal in the construction sector, lying unused in owners' yards and auction lots.

Although this raises the possibility of bargains being available for those with full order books, many operators are searching for ways of improving the fleet management of existing core assets and looking to reduce costs and the strain of having under-performing assets on balance sheets. Others are examining their places in the value chain and possibilities of increasing the downstream and upstream participation.

Measured on quality

"The emphasis is changing from linear operations that begin at one point and end with the supply of a defined product at another. Instead, all alternatives of increased participation in the value chain are being looked at as companies assess ways of securing their futures."

“Where options of expanding in the value chain are limited for some operators, especially in the construction sector, others are concentrating on building their core competencies and examining ways of effectively obtaining access financing. This is done so that they can rather outsource equipment and rent it for the duration of projects, as opposed to purchasing them and being left with holding costs for non-performing assets.

“The rationale behind this approach is that they are being measured on the quality of their outputs and that their ownership of assets required to complete a job are of little interest to those who are commissioning projects.”

Brand allegiance changing

As the focus has turned to maintaining margins and profitability, so has the ‘brand allegiance’ that used to be a factor in equipment purchases being made in sectors ranging from agriculture to construction, says Fritz.

“The emphasis has moved to acquiring equipment on its unique ability to undertake tasks, rather than having a uniform, branded fleet across a business. Although this can result in logistical and sourcing challenges, it is becoming increasingly common as users source equipment on a task performance basis. Many are willing to turn from traditional sources in America and Japan in favour of others whose quality may not be as high, but offer much lower prices, meaning that holding cycles become shorter but less expensive for operators who can take advantage of lower maintenance costs for the duration of a machine’s viable lifespan.”

Value for money and resource sharing

“Value for money and sharing of resources so that the agility of the business can be increased has also become a focus in South Africa. This has been characterised by increasing numbers of specialist operators applying for asset finance. At present the emphasis is on the agricultural sector where operators hold contracts to undertake jobs in various regions. Whilst they perform their tasks they are simultaneously removing from farmers the costs of owning, operating and maintaining machinery - a major benefit at a time when the sector is suffering the financial strain caused by the ongoing drought.”

Bearing these developments in mind, it is subtly changing the banker’s role to that of a person who facilitates access to finance by helping applicants assess their business plans, checks the sustainability of contracts and then provides the financial assistance required. In many cases, this requires looking beyond the traditional requirements regarding collateral required to secure medium to long-term loans.

“Essentially the banker is becoming an enabler who is required to use financial skills and knowledge of sectors to link people and opportunities as part of their daily functions. The emphasis is on being a partner in the value chain, rather than merely a person providing finance,” says Fritz.