

COMMENT

Embattled captives can still help vendors in the bad times

Steve Robinson

A growing number of manufacturers across many industry sectors have established captive finance companies to support their sales efforts. There are also several successful and long-established active captives. However, very few have experienced a recession on anything like the scale that is currently challenging the industry.

Captives are traditionally funded by either their parent company or third-party finance companies on a full or partial recourse basis.

As liquidity dries up, the availability of that funding reduces and prices increase, and some captives may begin to feel vulnerable and question their role and value to their parent.

However, equally, while there is no doubt that a captive's value will, and should, be reviewed by the parent as it

seeks to maximise the return generated by its available funds, there is a strong argument supporting the hypothesis that a captive's role is even more important in a recession than in a buoyant economy.

While a manufacturer might not regard its captive as a core business and may, therefore, be reluctant to use its limited cash resources to fund the captive, an indisputable certainty for every manufacturer is that selling its products is the core activity.

Therefore, the role of a captive as a sales enabler and provider of funding to the customer takes on even greater importance in times of limited market liquidity. After all if the manufacturer's target customers do not have cash or available credit lines then they will not be able to purchase the manufacturer's products.

Consequently, ensuring that the captive has access to adequate funding is of major



importance for the manufacturer. While this may necessitate it gearing up to fund the captive, there is no doubt that the funding will be critical in helping to close sales and in driving the core business.

In the current market conditions, facilitating the availability of funding to customers is a critical element in the sales process. This is a significant strategic tool for seizing opportunities out of adversity.

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