EQUIPMENT JOURNAL
Canada's National Heavy Equipment Newspaper...
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March 24, 2008

How to Keep Your Cash and Keep up with the Competition

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According to the Equipment Leasing and Finance Association's 2007 Annual Equipment Finance Report, equipment leasing is most prevalent in the construction and trucks/trailers industries. The construction business, in at least one way, is quite similar to trucking. By this I of course mean by expense. The very essence of the services around which both businesses revolve requires various types of equipment to be employed, various types of incredibly expensive equipment, that is. As a result, contractors and construction company owners frequently find themselves in the same financial quandary as their semi-wheeling counterparts. And so it should come as no big surprise that the solution remains the same; don't buy, lease.

Not only is leasing a cost efficient method of keeping pace with technology and much larger business rivals, but by choosing to lease costly materials, cash flow can be increased substantially, a major concern for all new business ventures, large and small.

Not only does equipment leasing provide tax breaks for the lessee, but it frees up capital that can be put toward other business expenditures or revenue-generating activities.

For many business owners, especially those in the motor transport or construction industries, 'new equipment' can easily mean hundreds of thousands of hard earned dollars. Therefore, even relatively minor tax breaks are felt immediately but that's only the beginning.

In the heart of the technological revolution, even the latest and greatest construction equipment and trucks can become obsolete in just months. Why buy a brand new 18-wheeler now, when next year's model will come with a built-in GPS navigation system? Why buy next year's when the following model with have an alternative fuel system? There is only way to keep up with the constant technological advancement.

With many equipment leasing arrangements, a contractor is able to choose a plan that allows the company to exchange recently leased equipment for upgrades or newer models. This allows the business to simultaneously keep pace with competitors and new developments.

Accommodating the little guys

Typically, leasing is most advantageous to small businesses faced with big expenditures or companies without vast amounts of readily available capital. But for those same reasons, securing a lease has been more difficult for smaller entities. Therefore the option of leasing has been perceived by these businesses as overly complicated, a situation only exacerbated by the recent credit crisis. But some equipment leasing firms offer leasing options tailored to meet

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the needs of such businesses, assuaging fears and developing a new niche market.

For instance, Five Point Capital (FPC) offers the "Long Haul Trucking Program," a plan available exclusively to truck owner-operators in the motor transport field. Designed to combat the overwhelming imbalance in expendable resources between the lone trucker and the multi-million dollar industry giants, this program affords subscribers financing which can be put toward supplanting a defective or outdated model, or to adding a fourth truck to a preexisting fleet of three.

How it's done

In every leasing arrangement there are two parties: the leasing company, also known as the lessor and the company receiving the lease or the lessee. In a basic agreement, the lessee, will lease equipment and pay for it over a fixed period of time. This allows for use of the equipment, and consequent profits, while paying for said equipment. Furthermore, depending on the type of lease, the lessee can usually choose to either own the equipment at the end of the lease, or return it for an updated replacement.

The lease can also cover single or multiple rentals. A single master contract can be made to include multiple items. The business owner is subsequently obligated to pay all lease fees and bears the cost of all equipment repairs and maintenance, for the duration of the contract. This includes damages and lost equipment, prompting an insurance requirement.

Equipment leasing companies generally help the company access financing quickly by using non-recourse (non-collateralized) debt. The business owner seeks out the proper equipment and vendor and negotiates the purchase price then contacts the leasing firm to complete the lease by providing the necessary funding to facilitate the acquisition. Because of their relationships with financial institutions, most leasing firms, use a process that quickly establishes the credit ability of the business owner allowing for fastest turnaround. Equipment leasing requires zero down payment and 100 per cent of the equipment cost may be financed. Many equipment leasing companies even allow sales tax, delivery, installation, and training to be added into the lease. Additionally, a lease doesn't tie up the business owner's personal credit to qualify and, in most cases, offers substantial tax benefits.

Types of leases

There are several types of leases to choose from depending on the terms that best suit the business' needs. First, there is the Fair Market Value Lease, which is an excellent option for business owners expecting a decrease in the value of their leased equipment. The lease agreement provides three options when the term of the equipment lease ends: purchase the leased equipment at fair market value, renew the equipment lease, or return the equipment.

Another lease financing option is the Dollar Buy Out Lease. With this option, at the end of your lease term, a business owner may "buy" the equipment for just one dollar. This is an appealing selection for businesses whose equipment will not lose value looking to keep equipment at the end of the lease.

Many equipment leasing companies also offer commercial leases for large equipment purchases (over $100,000). With this particular lease, many banks will include equipment leases on a business' available credit and reduce the credit line limits accordingly. Some equipment leasing companies, however, have special arrangements so that equipment leases won't affect a company's available bank credit.

The construction and trucking industries can benefit immensely from equipment leasing, especially when starting out. Even though construction is primarily a labour-based business, start-up and one-time fees can make it difficult to build a profitable business. As the Equipment Leasing and Finance Association's 2007 Annual Equipment Finance Report numbers show, equipment leasing has helped construction and trucking companies both large and small, not only stay afloat but thrive despite the current volatile economic conditions. Leasing provides the options that these businesses need in order to stay profitable and competitive especially in times of uncertainty in the economy.