

A business decision

Buying, leasing, or renting equipment

by Christopher Sann

Many turfgrass and landscape managers can become "equipment happy". Most small business persons have a great deal of pride in the business that they have conceived of, started, and succeeded at. One way to illustrate their success to the world is to own equipment. Unfortunately, this desire to show success often results in the inappropriate acquisition of equipment.

Inappropriate, not in the sense that equipment that has been acquired is the wrong equipment for the job, rather that owning the equipment for the sake of ownership has become an end unto itself. Then, the ownership can become a business problem that makes it difficult to run the company.

A helpful way to avoid this problem is for managers or owners to take a serious look at leasing or renting, rather than buying equipment. Going through the process of making an informed, business leasing, renting, or buying decision can help managers in several ways. First, the decision has a better chance of being based on sound business grounds. Secondly, the decision-making process takes ego out of the equation. And, finally, there is a better chance of saving money.

Make formal buying decisions

The first step in making any buying, renting or leasing decision is an obvious one: determine if you need a certain piece of equipment. Once a need for a piece of equipment has been confirmed, the next step is to decide how often you would use that piece of equipment per week, month, season or year and for how many years it would be needed. How often you need a piece of equipment and for how long you need it are the determining factors as to whether you rent, lease or buy that equipment.

Rent, buy or lease?

Once you have determined what equipment you need and how often you will use it, then you must compare that information against standards used to identify the means of acquiring the equipment. Although the way the equipment is used is the final factor that you must use to determine the best method of acquisition, some general rules can be applied.

Renting

If you use the equipment infrequently, and its use is based on jobs that you might develop in the future and not on present contracts, then you are better off renting the equipment. By renting you avoid maintenance and repair costs, the expense of finding out if that particular piece of equipment is appropriate to the job, and all the other costs of ownership. When you rent, the cost for the rental is a fixed cost and it is easy to include that cost in any bid or cost estimate.

The one exception to this rental rule is for smaller, less expensive equipment. If you estimate that the total rental cost during a given year will exceed half of the purchase price of that equipment or that the total purchase price is less than \$250, and you may have use for the same equipment in the future, then purchase the equipment. Deducting the entire cost of such equipment may be appropriate. Consult your accountant to be sure.

Buying

If you have a periodic, but unpredictable need for the use of a piece of equipment over a period of longer than three to four years or the use of that equipment requires access to it in less than 48 to 72 hours, then buying may be the right thing to do. If you will not have a need for improved versions of the equipment at a later date, or the equipment's immediate availability is required by contractual agreement, then buying may also be right.

As an example, consider snow removal equipment. The need for snow removal equipment in the northern regions is consistent, but in the transition zone the need is only occasional. If you need snow removal equipment in the transition zone it should be bought. With snow removal equipment having immediate access is the most important factor, so renting is inappropriate and over the long term leasing may cause cash flow problems.

Leasing

Leasing, which is basically a long-term rental arrangement, should be considered in any situation that does not meet the above two standards. Leasing has obvious and not so obvious advantages.

The most obvious advantage of leasing equipment is under consistently predictable production situations,

-continued on page 11

News Briefs

Brave New World continued from page 8

tion, has already surrendered.

Agriculture knows these new rules are coming and it, using evidence from earlier battles by other pesticide user groups, has decided that it won't mount a full scale attack on the new regulations but it will fight their imposition at the edges. Agriculture has decided that it wants to have some input in the process, so that the final regulations are not conceived by bureaucrats alone.

Will the Republican majority slow things?

If you think that the new Republican majority of the Congress will halt the imposition of many of the new pesticide use-regulations, I remind you of actions of the Reagan and Bush administrations.

Bush and Reagan, good Republicans both, and a bit like the current crop of anti-government zealots, professed a hatred for environmental legislation and regulation. But many new environmental laws were passed and many new pesticide regulations were enacted during their terms in office.

Despite all their bluster, politicians from both the left and the right understand that to challenge or obstruct environmental legislation designed to protect the American people is, like reducing Social Security benefits, the political equivalent of touching the third rail.

What should we do?

When I go through my repertoire of appropriate old sayings designed to reduce the pain of the inevitable, one in particular comes to mind, the Anonymous Prayer. It goes like this, "God grant me the serenity to accept the things that I cannot change, the courage to change those things I can, and the wisdom to know the difference." ■

EPA consolidates label change policies

In order to reduce the confusion caused by different implementation dates on mandated changes in product labeling, the Environmental Protection Agency (EPA) has formed the EPA Labeling Unit.

This unit will be responsible to coordinate all labeling changes and will implement them on October 1 of each year. Currently, the deadlines for publishing revised labels often depends on the wording of the new regulation. By requiring a single date each year for the imposition of label changes to a product, the EPA hopes to reduce any confusion caused by the regulatory pro-

Buying, Leasing, or Renting continued from page 9

particularly where upgrading the equipment every three to four years may be an important way of keeping that production at maximum efficiency. High-use production situations have a tendency to "use up" equipment, even when that equipment is very well maintained. By leasing high-use equipment for three to four years, managers have the use of that equipment under peak circumstances with little down time. Depending on the terms of the lease, once the lease period is over, the equipment can either be returned or purchased at a previously arranged nominal fee.

Leasing is particularly attractive if you are acquiring a newly designed or untested piece of equipment. It is also attractive if you need it for a limited period — say two to three years — or when such equipment has been shown to have a limited effective life span. Leasing for limited periods is particularly effective when the equipment is still in the development phase.

One of the benefits of leasing has to do with returning the equipment after the lease period has ended. Once the equipment has been returned, it can be replaced with a newer version of the same model. Surrendering short-term leased equipment allows turfgrass and landscape managers to take advantage of newer versions of the same models or change to a different equipment model that is better engineered. This ability to change or upgrade optimizes business efficiency by keeping operators from being saddled with outmoded or overworked equipment.

Does leasing cost more than buying?

Historically, leasing has been approached as strictly an accounting decision and the financial aspects of a leasing agreement are very important, but the decision whether to lease, buy or rent equipment should be, first and foremost, a business decision. ■

cess. Additionally, the EPA will require that the labeled changes would go into effect on the next October 1 following the imposition of mandated changes.

TGT View - With coming widespread changes in the availability and use of many pesticide products and formulations, all applicators will now be able to better plan for the future. If on Oct. 2 of each year, the current product label says that an application of a given product can be used for a given purpose, then the applicator can have confidence that he can use that material for at least the next year. —CS