LEASE — OR — BUY

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A financial expert with John Deere takes a step-by-step look at acquiring equipment.

BY RHONDA FLANERY, JOHN DEERE FINANCIAL

In today's economy, superintendents and club managers are faced with a number of issues to tackle, from player demands to sustainability concerns to finances. For successful results, overcoming each obstacle requires preparation, planning and flawless execution.

When the time comes to purchase a new piece of equipment, you have a number of options. Instead of letting the questions mount and the stress get the best of you, at John Deere Golf we recommend setting a strategic plan to handle the process. As a finance company representative, I'm often cautioned to offer an even-handed, objective point of view about various financial options. So I feel strongly that there is only one way to think about acquiring new equipment, and that is to make the process as easy as possible.

The big picture

Every superintendent comes to the point where he or she can no longer put off the inevitable: It's time to replace a piece of equipment. More than likely, the first thought is, "How am I going to get the funding?" We know superintendents have to figure out how to save everywhere they can, and unfortunately, there are no simple solutions when it comes to new equipment needs. However, understanding all of the options at hand, and how to communicate them through your organization, will make a considerable difference.

The first inclination might be to simply work out a plan for the immediate replacements. However, I recommend you consider the bigger picture and formulate a plan to replace all your equipment, even if some of those purchases may be a few years in the future. Having a long-term plan enables rational consideration and replaces immediate concerns and worries with the confidence you need to make smart and efficient long-term business decisions. Plus, taking a big picture view of how you need to structure all your purchases enables you to better prioritize and, more importantly, justify your plan of action to your club manager and ultimately to the board of directors.

1 CREATE A CYCLE

The first step is to identify a replacement cycle for each piece of equipment.

Generally speaking, there are some types of machines you know you can wait more than five years to replace, such as tractors, grinders and in some regions, aeration equipment. Other, more heavily used equipment, like greens and fairway mowers, you ideally would want to update every three to five years.

Next, weigh the choice between buying and leasing for each piece.

2 CONSIDER LEASING VERSUS BUYING

Buying offers the clear benefit of being able to call the piece of equipment yours at the end of the loan period, and freedom from a continuing obligation to make payments. However, it also comes with higher monthly payments, a down payment and continued maintenance costs. Leasing, on the other hand, requires you turn over the equipment at the end of the lease, lowers your monthly payments, often eliminates the need for a down payment, and leaves you in a better position to consistently use the newest and most advanced machines every three to five years.

"The equipment lease program was a great way for us to get our fleet updated

It's essential to understand the motor and mechanics of any piece of equipment so your technicians have the necessary background to properly maintain your new purchase. Here, John Deere Golf representatives give the customer a good look at a greens mower.

PHOTO COURTESY: JOHN DEERE

fast,"said Dan Meersman, director of grounds, The Philadelphia Cricket Club. "The benefits of leasing are the standardization for employee training, the ability to sync warranties and ensure all parts needs are streamlined."

If you follow the replacement cycle you developed, it's easy to walk down the path of whether purchasing or leasing is the best choice. Generally, purchasing is the way to go for those pieces you identified as having long replacement cycles (over five years). Leasing may be better for equipment like greens or fairway mowers that are typically updated more frequently.

There are other differences between buying and leasing, and how these purchases are accounted for on your organization's balance sheet, which may influence your manager and board of directors. Basically, leasing comes out of your operational budget, and purchasing out of your capital budget. So leasing equipment may leave lines of credit open that can be used for renovations or other areas needing improvement in your club. This is worth keeping in mind as you develop your plan.

It's no surprise that golf courses that follow their plans opt to have a mixture that may include multiple terms and both operating and lease purchases, as well as outright purchases.

3 THE FINANCIAL PARTNER

Of course, another way to reduce the stress of the whole process is to pick a financial company you can trust. So look for some specifics when considering your finance company options.

The first thing is the stability of the relationship. Changing finance companies can be time-consuming and a hassle. In difficult economic times, comfort can be found in having a long-term financing relationship based on trust.

Next, consider the company's reputation for integrity and support. We've all heard rumors of dealings that may not be within our comfort zone. True or embellished, it's important to think ahead and ask any and all financing questions you may have. It's better to ask in advance than to regret the question you didn't ask after documentation is signed.

Look for demonstrated flexibility. Your club may have specific nuances that require flexible arrangements. Within reason and with a stronger credit profile, you should have access to a seasonal payment schedule (for example, 6 on/6 off; 8 on/4 off).

Lastly, it's important to work with a company that is familiar with leasing or financing equipment for golf courses. Industry knowledge is important.

4 THINK THROUGH THE WHOLE PLAN FIRST, THEN RELAX

You have plenty of other worries to address when maintaining your course. Figuring out how to afford the equipment you need ideally should not be one of them. So if you plan ahead, discuss your options with local distributors and benchmark with your peers, you can take a lot of the aggravation out of the whole process. ■

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