

Leasing equipment offers advantages

When Tony Fox decided to get back into the landscaping business after seven years absence, he knew he wanted the best equipment available. But he also wanted to "test the waters" before committing himself to a large capital investment.

"There's a lot of commercial and residential construction going on in the Pacific Northwest," says the Vancouver, Wash. contractor. "But I wanted to be sure of the stability of the economy before making a lot of capital outlays."

Fox diligently shopped around for a skid-steer loader—the workhorse for his new company—Special Dig and Construction. "I put between 50 and 60 hours on every machine I demo'ed," he says. Finally he found the loader that best fit his needs and the flexible financing to help him get his business off on a fresh start, a model with tracks, one-yard bucket, forks and backhoe attachment.

"Case Power and Equipment of Portland, Ore., gave me a 90-day lease. They would have given me a six-month lease, but after 90 days I felt confident enough to roll the lease over into a straight purchase."

Innovation needed

Fox's experience illustrates the demand for innovative financing in the heavy equipment industry, says Phil Cote, Case Credit Corp. vice president for marketing and planning. One of the biggest challenges equipment financing companies face is responding faster to changing customer needs.

"Our customers' needs are changing faster in a more competitive marketplace," Cote says. "That's why we give dealers a great deal of flexibility in setting up financing arrangements."

One of the most important decisions facing a contractor who must upgrade or replace heavy machinery is the choice of a financing program. For example, lease financing can mean lower payments and shorter trade-in cycles; it's a way to fix costs and cash flow based on the operator's individual needs. "There's nothing wrong with paying only for what you use. And in this day and age, who can afford to needlessly tie up working capital?" Cote asks.

Money at work

Dick Krueger of Krueger's Associated Landscape, Hillsboro, Ore., agrees. "Leasing lets me keep my money



working for me. My business is exclusively commercial contracts and keeping my assets liquid gives me more bonding capacity to get bids."

But leasing is not the answer for every contractor. "The decision to lease or buy is a very personal one and should be made in terms of one's unique financial situation," Cote says. "The majority of businesses that fail go under because of cash flow problems. A contractor must ask how important it is to have a title or deed to a piece of equipment in meeting contractual needs."

Lower payments are possible under a lease arrangement because the customer is not required to have equity in the equipment. "You can only pay a portion of the selling price, which is determined according to depreciation," Cote says. "Say the current retail value of a machine is \$10,000 and you only need it for two seasons of work. At the end of two years, you would still owe \$5,000 under a traditional four-year contract. With a lease however, you pay \$5,000 on the value of the machine during

the period of use."

Investment recovery

Usually contractors expect to recover some of their investment by trading in an old machine when it's been paid for. "That can backfire if the used equipment market softens and you don't get as much money back as you were counting on," Cote notes. "With leasing, you in essence receive the credit you would get on a trade-in up front."

Full-service financing is an integral part of the heavy equipment business. It benefits landscape contractors and others by making the use of new equipment more affordable.

"That's why we're currently reviewing all current finance programs and contracts in an effort to stay competitive," Cote says. Much of the input for new financing options comes from dealers.

"What influenced my decision was first, who had the better machine," says Fox. "After that however, it was which dealer offered the better support system."

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