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Equipment leasing offers flexibility for small business

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The decision between leasing and purchasing equipment is a tough one for small businesses. And as the economy slowly improves, more Valley small-business owners are having to make that call.

According to a recent U.S. Small Business Administration survey of its cream of the crop, equipment leasing is up about 20 percent nationally over the previous two years. The survey was conducted by the national Equipment Leasing Association, or ELA.

The trend is evident in the Phoenix area where local leasing and financing companies say they are seeing heightened interest in equipment leasing.

"An increasing number of businesses are choosing to lease equipment rather than to purchase," said Roger Marce, president of Manufacturers' Lease Plans Inc. in Phoenix. "All the people we talk to say they are seeing a fair amount of pickup."

The ELA estimates equipment leasing is a \$218 billion industry in 2004.

About 86 percent of those surveyed said they were leasing over buying, and the survey provides insight into what motivates businesspeople to lease equipment.

The top four reasons to lease were: consistent expenses in budget planning; increased cash flow; flexibility to have the latest equipment and no down payment.

Asset management, convenience, equipment maintenance options and helping to manage company growth were other reasons given for leasing.

Cash flow is the No. 1 consideration for small businesses when deciding to lease. For

small businesses starting out, capital usually is scarce so the option to lease is especially beneficial, said Michael J. Fleming, ELA president.

Forty-three percent reported their need for technology increased more than other equipment demands. Since tech equipment has a high tendency to become outdated faster, businesspeople reported it made sense to lease it.

"The medical field is constantly coming up with new equipment and technology," Marce said. "It is very expensive. Leasing this kind of equipment allows you to manage your assets and your cash flow."

Mach 1 Services, an international freight company in Tempe, leases about three-quarters of the equipment it uses, according to its management.

"Because we are a trucking company, and each truck costs up to \$50,000, the percentage of our total capital assets leased are higher than most companies," said Bruce Janis, executive vice president and chief financial officer.

Janis said the company will lease trucks, computer equipment and forklifts when the size of a contract is above a minimum of

\$15,000. The average length of a lease is three years, he said.

Each decision to lease also is based on the interest rate environment, the type of lease and its impact on taxes.

Marce said leasing offers flexible terms and options in regard to a company's cash flow and budget. Leasing preserves company cash for other uses, such as research and development since no down payment and no collateral are required, he added.

However, leasing may not be an option for everyone.

Regina Ramirez, vice president of Ramirez Mechanical Systems Inc. in Phoenix, said buying equipment meets her company's needs in today's competitive business environment.

"I think that from our perspective, a lot of the

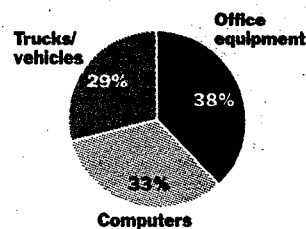
times you can get the payment less by leasing, but in the end you have nothing to show for it," she said.

"Being that you are already paying for the maintenance of the equipment, we would rather have the equipment at the end of the project rather than turning over to a new lease."

Ramirez said her company, which fabricates sheet metal products for the construction business, buys equipment such as metal shears and plasma cutting machines.

FAST FACTS

Top equipment types leased:



Source: Equipment Leasing Association

QUESTIONS TO ASK WHEN SIGNING A LEASE

Before you sign:

How am I planning to use this equipment? Does the leasing representative understand my business and how this transaction helps me to do business?

During the transaction:

What is the total lease payment, and are there any other costs that I could incur before the lease ends? What happens if I want to change this lease or end the lease early? How am I responsible if the equipment is damaged or destroyed? What are my obligations for the equipment (such as insurance, taxes and maintenance) during the lease? Can I upgrade the equipment or add equipment under this lease?

After the lease is signed:

What are my options at the end of the lease? What are the procedures I must follow if I choose to return the equipment? Are there any extra costs at the end of the lease?

Source: Equipment Leasing Association

2004 EQUIPMENT LEASING SURVEY

Small businesses nationwide report increases in their leasing habits over the past two years:

- **86%** of respondents are currently leasing equipment
- **62%** said the economic climate affects their equipment acquisition decisions, with interest rates as the determining factor
- **38%** leased office equipment
- **33%** leased computer equipment
- **29%** leased trucks/vehicles
- **62%** have leased equipment in the past

Source: Equipment Leasing Association

GET CONNECTED

Equipment Leasing Association:
www.chooseleasing.org
Manufacturers' Lease Plans Inc.:
602-944-4441