

## Benefits of brokered lease and finance transactions

Many people wonder why they should get someone involved in the financing of new or used equipment. The answer is simple, a better solution. A professional in the field of finance can work with both vendor and buyer to create a solution for a business that is effective. A qualified broker brings not only financial expertise but also general business knowledge that creates a “win-win” transaction. Your broker should be experienced in not just finance but in acquiring equipment. A broker needs to be able to look at the entire enterprise and how it can benefit from the specific transaction or even additional transactions of equipment. Equipment can range from computers to vehicles, even software and other IT solutions.

The best independent brokers bring expertise that results in a solution that benefits the buyer and the vendor. Leasing is a great way to preserve capital and provide flexibility that an outright purchase can't. A good broker helps a vendor sell more equipment and helps buyers have a more successful business by helping provide solutions to various business challenges.

When acquiring equipment, the transaction must be viewed as just how profitable (valuable) is it going to be for the buyer. No reputable vendor knowingly sells a firm what it cannot pay for. Many firms think adding equipment alone will be enough to grow profitability: “If we could just produce more our profits would improve”. What is sometimes overlooked is if the market is there for the additional capacity. Would working existing equipment more be just as productive, or is older equipment breaking down resulting in lost productivity? Old equipment is costly to fix. The downtime of broken equipment can hurt worker morale. Is the buyer buying enough equipment to capitalize on the strength of the market? Owners know their business best and the broker's goal is to help them look at the acquisition in a variety of ways. For example, sometimes a different piece of equipment may be the answer. Perhaps the owner should be buying more equipment to complement what is already being purchased. A broker works with the lessor and can provide information that may result in a larger purchase with a larger benefit to the buyer. The buyer has higher payments than at first forecasted but can take advantage of the market and produce greater profit. Leasing also provides advantages in a down market.

When business is good down markets are forgotten. We know the business cycle can change and suddenly monthly payments get more attention because they are harder to make. Capital must be preserved. Leasing makes monthly payments easier in a down market because the payments are less than buying. Asset based lending comes into play for those that tie up their cash in an outright purchase. Here the firm sells its owned assets to a lender for needed cash and then leases them back. This transaction is not necessarily bad but can be expensive. Any firm should always keep its goals and its level of risk tolerance in mind with any financial transaction.

Realistic goals should be discussed and acted upon with the firm's employees. A firm not only loses profit opportunities by overbuying but by underbuying. A great example is IT. Hardware for the most part is relatively cheap. To upgrade to more durable, reliable equipment can reduce downtime and lost productivity. For a small difference in cost the benefits can be great and the decision to spend a bit more on the upgrade will pay dividends. Software is very similar. Many vendors have such a variety of options that the buyer can customize what they want and provide themselves with a productive, intelligent solution for years to come. One must make sure that precious dollars are not wasted on

something that sounds great but is not going to be used by the firm's staff. A more intelligent use of funds would be to ask the staff what they could and would use and then make the purchase comply. Management should not take a stand that "My people have to use this because I bought it and I know what is best for them." Sometimes surprising, many work forces spend the firm's money more carefully than the principals do.

When a purchase decision involves employees, it pays to get who is involved, involved. Getting input can produce a more productive result than just saying "here is something new, use it". The right equipment purchase should benefit the employees and the overall firm. Feedback from employees can be very useful in getting the right decision for a solution. When employees that are affected by the purchase help in the decision process they feel the success. They even feel more responsibility if the decision is less than satisfactory, they "have skin in the game"! Reducing risk and improving performance are great results of a successful decision. All parties should know what the benefits of the equipment acquisition are so the transaction can be completed in a timely manner and start producing results for the lessee/buyer.

A good broker can discuss opportunity costs with the buyer of the equipment. What else a firm can do with the funds to be spent can be cause for healthy discussion. A broker can help solidify the customer's decision and provide input on how the transaction can be financed for the benefit of the buyer. The end goal is to always make sure solutions are provided for the buyer's benefit. Good brokers can help the vendor by providing input that may have been overlooked by both the vendor and the buyer. Input includes financial, marketing, and even advertising and promotional ideas. The right broker adds value to the transaction for both the vendor and the buyer.

Brokers ask questions about the business. These questions help him/her understand the owner's business better and more complete. The broker is there to help the purchaser and the vendor look at the transaction from different angles. The most important angle being the value the new purchase brings to the firm. Many owners think "the old stuff will do, patch it up and keep it going", "the last thing I want is another payment". However, if this additional payment of X amount produces X+Y or even X+Y+Y the purchase is a good one. Better performance, fewer repair bills, improved employee morale, and increased profits are what new equipment assets can bring. The aftertax cost of the purchase must also be considered. Consult with your accountant and you may find the new stuff works, performs, and is far more profitable than the old stuff!