

Increase Your Business Growth and Cash Flow Through Equipment Leasing

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"If it can be manufactured, it can be leased." For the past decade or so, this statement has become more and more true to fact. From computer software to commercial aircraft, equipment leases are utilized day in and day out in a constantly changing and highly aggressive business environment worldwide. To gain or to keep the edge over their competitors, companies of every type and size are constantly looking for creative ways to conserve working capital while expanding operations. Many have turned to leasing their equipment to help in the effort.

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So, why should you join these businesses in choosing to lease? Well, one key factor is that the commencement of a lease can be done with very little out of pocket expense. Two advanced payments or an equal security deposit is usually all that's required. Couple this with the fact that for many leases, particularly those under \$75,000, a simple one page credit application is all that is needed to be considered for approval. Compare this against an equipment loan, with it's more extensive paperwork and the resulting 10 to 50 percent down payment required to begin the transaction.

Leasing will also allow your business to maintain credit lines with the banks. This preserves the company's borrowing power for future expansion, investing, or other types of growth where leases cannot satisfy the need.

Many business owners don't like the idea of paying a premium rate in order to both own and use equipment. If obsolescence is an issue, such as in the hi-tech sector, most companies find it more desirable to be able to walk away from outdated equipment having completed a short term lease. The average term runs anywhere from 2 to 5 years, after which the business can begin another lease and acquire more, up-to-date equipment. This progression can give your company a vital edge over it's competitors. Other leasing benefits could be expounded upon, such as the tax advantages, lower monthly payments, fixed expenses and the off-setting of inflation, but you can see the point.

Now, simply realizing that leasing is beneficial for your business and then pursuing it as a course of action is only the start. Like bank loans, there are elements of a lease request that increase the chances of funding. That may seem like a no-brainer, but many business owners expect more leniency from lessors than any lending institution is able to provide. Leasing companies, like your business, are in the process to make money. Therefore, some consideration on your part is in order. You should try to give the lessor at least a 70 percent chance of funding your request. Below are the most crucial points of review:

Your Time in Business - Since about 90 percent of all businesses fail in the first three years, most lessors will require of the lessee a minimum of two years in business. In addition, there is generally a maximum transaction amount of \$10,000 to \$15,000 for businesses under three years old. However, some lessors, in order to compete in their market, have relaxed those requirements or developed special programs for startups and young companies. These types of programs will obviously demand higher lease rates, but the ability for a new business to obtain necessary equipment fairly quickly and with a minimum of paperwork still makes the process very worthwhile.

Credit History of Guarantor(s) - Lessors will make decisions based on a lessee's credit history after reviewing their consumer and/or business credit report. The leasing company looks for numerous late or delinquent credit commitments, lawsuits or judgments, bankruptcy, unverified residence, short credit history, and debt larger than what is stated on the application. Keep in mind, however, that some of the above problems can still be overcome during the approval process.

Bank Relationship - Your business should have a checking account that has been established for at least two years and has had an adequate average daily balance for that period of time. If there have been any NSF's, they must not be recent.

Trade Relationships - It's a strong indicator that your business has good cash flow if discounts are offered (i.e., 2% 10 days: net 30 days). The leasing company looks for trade accounts that are paid on time and within the terms of agreement.

Financial Statements - Generally, if the lease amount is more than \$50,000 to \$75,000, a full financial package is mandatory. This includes, but is not necessarily limited to, the last two year end financial statements, with a complete balance sheet and profit and loss statement. An interim statement for the current and last year's comparative period is often required as well if the year-end financials are over six months old.

Other considerations include: the type and cost comparisons of the equipment (collateral), the extent of the lessee's trade credit and bank borrowing lines, and leasing history of the business.

Though it isn't crucial to have every one of the afore mentioned points strong, an above average ranking in the majority of them greatly increases the probability of funding. It also increases your likelihood of receiving a better rate. If your business demonstrates strength in only one or two of these areas, it is still possible to secure the financing, though the choice of lessors becomes a bit more limited and the elevated risk is reflected by a higher lease rate.

It's always in a company's best interest for the decision-makers to consider leasing as a means of capital conservation. And as you can see, it's also important to prepare for the transaction should the decision be made to pursue it. The majority of businesses that utilize equipment leasing each year in the United States and Canada continue to do so with at least some of their equipment thereafter. Contacting a leasing company representative or a broker can help you determine if leasing can create an environment of improved cash flow and an opportunity for growth in your business.

Mark Uptain is a Business Finance Consultant residing in Washington State. His website, <http://www.EquipmentLeasingSource.com> offers free equipment leasing information and quotes to businesses throughout the United States and Canada.

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