Equipping Businesses for Success

By WILLIAM G. SUTTON, CAE, President, Equipment Leasing and Finance Association

Businesses are ramping up to meet increasing demand and market opportunities in response to continued signs of economic improvement. Acquiring equipment to operate and grow is critical, and for smart businesses, equipment financing is a key acquisition strategy. Equipment financing is tailored to individual business considerations, including that of maintaining cash reserves.

The current market situation finds equipment financing as vital and available as ever, enabling organizations to secure the assets they need. Equipment financing provides many benefits that fit the operational and financial objectives of businesses, from Fortune 100 corporations to one-person operations. A deeper understanding of these benefits will enable organizations to strategically leverage equipment financing not only during improving economic conditions, but for any business cycle.

Growing Confidence Creating Demand for Equipment

An improved business outlook provides encouraging evidence for businesses to stop putting off acquiring new equipment or replacing or updating existing equipment. Promising signs of increasing business confidence, spending and investment include the results of a Duke University/*CFO Magazine* Global Business Outlook Survey released in December 2010, which shows that chief financial officers in the U.S. are becoming more optimistic about the economic outlook for 2011. They expect to raise company earnings by 20 percent and increase capital spending by nine percent.

Additionally, nearly one-third of small business owners said that at of the start of

2011 economic conditions for their businesses are getting better, according to Discover Small Business Watch. Thirty percent — the highest percentage since March 2008 — said they will increase spending on business development, including capital expenditures.

Increasing optimism prevails in equipment finance as well. The Monthly Confidence Index for the Equipment Finance Industry, which reports a qualitative assessment of prevailing business conditions and future expectations, reached its highest level in March 2011 since the index originated in May 2009. The Equipment Leasing and Finance Association's (ELFA) Monthly Leasing and Finance Index, which reports economic activity for the $521 billion equipment finance sector, also showed new business volume for the fourth quarter of 2010 was up more than 20 percent over the fourth quarter of 2009.

Benefits of Equipment Financing In Uncertain Conditions

Despite the tangible gains businesses are experiencing, economic recovery is being hampered by unemployment, the housing market slump and durable goods data, among other issues. The Duke/*CFO* Survey noted CFOs are concerned about consumer demand, pressure on profit margins and the difficulty of planning during uncertain economic times, with half of CFOs planning to hold onto cash. These are conditions that are well suited for equipment financing, since it:

1. Enables expense planning.
2. Maintains cash flow.
3. Preserves capital.
4. Requires no down payment.
5. Can provide 100 percent financing.

The flexibility of equipment financing, especially leases, is another key benefit that can enable customized solutions for a business's accounting, tax or cash flow needs. Leases are available that allow for seasonal business fluctuations, lower monthly payments while a project is ramping up and the equipment is not yet generating revenue and other specific circumstances a business may experience.

Availability of Credit

Access to credit is one of the many benefits equipment financing provides in a restricted credit environment. The Duke/*CFO* Survey reported that credit conditions are somewhat improved over a year ago, but among small firms, credit still remains tight. Credit approvals in the equipment finance industry are historically higher than those for bank loans, and have been improving steadily, according to data from the ELFA. The role of the equipment finance industry in providing credit to businesses

has wider economic impact, since in a typical recovery most job growth is generated by small firms.

Advantages for All Business Cycles

In addition to market-sensitive considerations that make equipment financing attractive to businesses, its operational advantages provide benefits in all economic cycles:

Access to Equipment Expertise

Many equipment finance companies have special relationships with manufacturers and distributors. This expertise also enables the best possible lease payment terms since their knowledge and experience with various equipment types allow equipment finance companies to accurately set the residual rate — the value of the leased equipment at the end of the lease term — for your equipment type.

Equipment Obsolescence Management

Funding equipment such as IT, communications and medical/healthcare equipment through leasing, loans or other financing arrangements helps manage equipment obsolescence by enabling updates. Certain leasing finance programs can allow for technology upgrades or replacements, so the risk of being caught with obsolete equipment is lower with leasing than with other equipment acquisition methods.

No-Hassle Equipment Disposal

Financing also allows upgrading without having to manage equipment disposal and other ownership burdens. Particularly with computers and other technology devices, disposal can be a complicated issue, governed by federal, state or local regulations, which equipment finance companies are well positioned to handle.

Better Risk Management for Risky Times

The risk of equipment ownership is a consideration for businesses regardless of business cycles. Investing in large capital expenditures represents a big financial risk, especially to small companies. Even with low interest rates that make purchasing attractive, the potential consequences of ownership can erode the upfront benefits. Risks incurred from managing assets, such as inconvenience, inexperience, obsolescence and loss of profitability, can be dramatically reduced through the transfer of equipment ownership to the equipment financing company. Financing removes many unnecessary risks, allowing businesses to focus on their core competencies.

Outsourcing Equipment Management

Businesses have cut back staff significantly over the last few years, and most businesses lack the resources or knowledge to efficiently manage and sell their old equipment and purchase new. The convenience of having equipment managed by a third party, such as an equipment financing company, essentially outsources the equipment management function.

Valued Equipment Consulting

Most importantly, the equipment financier can be considered a valued consultant,

providing additional benefits through lifecycle asset management solutions. Financing companies can provide dependable asset management, which helps businesses track the status of equipment, schedule upgrades, and receive full equipment lifecycle services from installation to disposal.

Equipping Business for Success

Equipment leasing and financing plays a significant role in helping all types and sizes of commercial businesses in the United States to acquire the equipment they need with increased flexibility, regardless of business conditions. The role of the equipment finance industry in funding the capital expenditures businesses need to operate and grow contributes not only to businesses' success, but to U.S. economic growth.

Businesses who want to learn more about how they can incorporate equipment financing into their business strategies may visit www.EquipmentFinance101.org *[1].*

William G. Sutton, CAE, is president of the Equipment Leasing and Finance Association, the trade association that represents companies in the $521 billion equipment finance sector, which includes financial services companies and manufacturers engaged in financing capital goods. This year the ELFA is celebrating 50 years of equipping business for success. For more information, please visit www.ELFAOnline.org *[2].*

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