LaSalle Solutions
Helping You Manage the Life-Cycle of Your Assets.

INSIGHT REPORT

Asset Financing: Optimizing Your Business Spend

According to the Harvard Business Review, adaptability is becoming the new competitive advantage. Hedging on your business spend can provide an organization with the flexibility and the ability to adapt as their needs evolve.

With technology equipment this is especially so. Equipment needs change quickly in today's competitive landscape, no matter your industry, and the ability to adapt to new requirements can be the key to the success of an organization.

How an organization chooses the financing for their equipment can be equally advantageous.

Optimizing Your Spend and Hedging Against Change

In order to optimize the spend on equipment, an organization needs to understand the targeted use and useful life of the equipment, including the amount of time the equipment can be used before upgrades are necessary or the item becomes completely obsolete.

When acquiring technology, medical, material handling, capital, or certain other types of equipment, understanding at what point in time technological changes, maintenance costs or business capacity requirements will make replacement of the equipment a viable option or requirement is important. In other words, the expected useful life of the equipment should help determine how the organization finances the equipment.

> **"Nearly 90 percent of survey respondents said IT's "strategic contribution" to company operations would rise by 2014. Half said they agreed that IT can 'change the rules of competition" in their industries'."**
>
> **– Gartner-Forbes 2012 Board of Directors Survey**

Useful lives are different for varying types of equipment. With IT equipment for instance, a company might look to use a server for two to three years due to proposed technical changes or anticipated sales growth even though the actual economic useful life may be closer to four (4) or five (5) years. For heavy machinery, a company might expect to use an earthmover for 5 years, while the useful life may be more like 20 years.

An organization should also understand the need for upgrades, modifications and other technology changes, as well as asset management and disposition. Once these are factored in with the intended use of the equipment and the useful life, the organization is ready to assess the different methods of financing which generally include using cash on hand, bank lines of credit, bond financing or leasing.

As with all decisions around the business spend, reviewing limitations as well as advantages is necessary. For equipment financing, a review of what may be the optimal choice is determined by the factors of use and useful life.

Financing Options

	Cash on Hand	Bank Line of Credit	Bond Financing	Lease Financing
Cost	None. Opportunity.	Cost of Cash. Low interest rates.	Low single digit effective rates of 2-3%.	Enables preservation of cash flow with low effective interest rates.
Legal Assistance	Minimal.	Some necessary.	Some necessary.	Minimal.
Approval and Terms	Generally subject to company capital approval process.	External approval needed. Payments terms may be longer than the asset's useful life. Limits may be present on spend amounts.	External approval needed. Payments terms may be longer than the asset's useful life. Limits may be present on spend amounts.	Generally quick approval processes. Financing terms match the asset's effective useful life.
Documentation	Simple.	Possibly Complex.	Possibly Complex.	Simple.
Asset Management	Organization's responsibility.	Organization's responsibility.	Organization's responsibility.	Tools generally provided by Leasing firm. Easy and transparent tracking and maintenance of assets.
Flexibility for changes, upgrades, obsoletion	Costs could be prohibitive if the equipment needs to be replaced or upgraded.	Costs could be prohibitive and may be restrictive as convenants may be put in place to make replacement or upgrades of the equipment difficult.	Costs could be prohibitive and may be restrictive as convenants may be put in place to make replacement or upgrades of the equipment difficult.	Enables flexibility and hedge against changes, updates and trends in technology and the economy.
Asset Disposition and Disposition Costs	Significant. Organization's responsibility. Subject to legislative and financial penalties if not properly disposed.	Significant. Organization's responsibility. Subject to legislative and financial penalties if not properly disposed.	Significant. Organization's responsibility. Subject to legislative and financial penalties if not properly disposed.	Provides an easy path for disposition. Responsibility with lessor.

Effective Financing

Leasing positively optimizes your equipment usage process by providing a systematic and convenient vehicle for the acquisition, finance, maintenance and replacement of assets.

Leasing is the most effective source of financing if Corporate goals provide for the planned replacement of equipment at a specified period of time (generally the term of the lease), and the option to easily and cost-effectively replace equipment when an organization is unsure of exact plans at the time of purchase.

Leasing can offer effective interest rates around 0% if equipment is upgraded or replaced at the end of its life cycle at lease term. If part of the leased equipment is returned and the remainder re-leased or purchased, the overall effective rates are low. In this case leasing assets provides a hedge.

Effective Interest Rate –
Estimated real cost of borrowing using Leasing

60 month		36 month	
Operating Lease – Return	0.37%	Operating Lease – Return	-2.90%
Operating Lease – Purchase	8.82%	Operating Lease – Purchase	9.69%
Average (Return ½, Purchase ½)	4.60%	Average (Return ½, Purchase ½)	3.40%
Finance Lease – Return	2.39%	Finance Lease – Return	0.44%
Finance Lease – Purchase	8.17%	Finance Lease – Purchase	9.27%
Average (Return ½, Purchase ½)	5.28%	Average (Return ½, Purchase ½)	4.86%

Leasing Programs help lower total costs and enable organizations to acquire critical equipment within a simple process with limited capital budgets. Lease Programs give you maximum flexibility throughout the lease giving you seamless upgrade paths and low cost extensions or buy outs. There are no overlapping rentals in lease programs and very few, if any, charges levied for returned equipment, or equipment at the end of the lease or its life.

Leasing improves the organization’s process with spend and with management of change from beginning to end.

From a LaSalle customer…

"We generally purchase if we want to use an asset for a long time or it has a long life cycle.

Leasing, on the other hand, is like buying an insurance policy. It provides a hedge for changing technology, economic trends and our corporate goals. If our plans call for timely equipment upgrades or replacements because of use, we lease. It is the lowest cost alternative.

If we are not sure what the future plans for an asset are, we may still lease. If we return it at lease end the overall cost is low. If we keep the leased equipment and buy it, it may have cost a little more than an outright purchase, but that is only a hedge on our bet.

Choosing the right leasing partner is important, however, because that has a direct impact on buyout costs."

Ray Lanas,
VP Materials Management
Vibra Healthcare

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