

Logistics MANAGEMENT[®]

A lease by any other name... Regardless of the number of terms used to define it, leasing has become the most popular option when it comes to financing lift trucks. Outright purchase, it seems, is a thing of the past, except under a few specific circumstances.

By William Atkinson

Today, there are a lot of ways to finance a lift truck or lift truck fleet. These include buying, leasing, engaging in a “hybrid” lease/buy arrangement, renting, and even acquiring used trucks. Each has its benefits and drawbacks, most of which relate to the size of the organization, how much the trucks are used, and how “intense” the working environment may be.

In recent years, however, leasing has become by far the most popular way to acquire lift trucks and truck fleets. Leasing offers logistics and warehouse managers many benefits that are undoubtedly fueling the growth in interest, such as not having to list the trucks as assets on the books, not having to deal with disposition of the trucks after their useful lives, keeping trucks only in the early years when they are most productive, and it gives them the opportunity to replace the trucks more often with vehicles offering the latest technology—not to mention the financial flexibility by not tying up cash.

However, while leasing is definitely the preferable way to go for most, it’s not without its challenges; the most significant of which is the wide range of lease options that can cause a lot of confusion and head-scratching for customers.

When it comes to financing lift trucks, the terminology is extensive, redundant, and downright confusing. Consider this:

A “capital lease,” also called a “full-payout lease,” involves making monthly payments en route to owning the equipment when all of the payments are made. This is the cost of the equipment plus a finance cost, divided over a term. Since it involves “ownership intent,” it’s actually more of a finance agreement, similar to a mortgage.

An “operating lease,” also called a “true lease” or “tax lease,” involves making monthly payments; but at the end of the payments, the truck is returned to the dealer. As such, payments are for usage, rather than payments toward ownership. The equipment is considered an expense, rather than an asset.

Confused? Well, there’s more. There’s also a “dollar-buyout lease,” also known as a “dollar option lease” or a “full payout dollar option lease,” which involves the option to purchase the truck at the end of the lease for one dollar. And don’t forget the “fair-market value lease” that provides a number of options at the end of the term. You can return the equipment, renew the lease at a renegotiated rate, or purchase

the equipment at fair-market value.

Regardless of the number of terms used to define “lease,” leasing is definitely the most popular option today when it comes to financing lift trucks. Outright purchase, it seems, is somewhat a thing of the past, except under a few specific circumstances. “Leasing has increased over the last five to ten years for both large and small companies,” says Joe Ginnetti, vice president of sales for Raymond Corp.

Christina McCaughey, director of financial services for Yale Material Handling Corp., agrees with Ginnetti. “Ten years ago about 30 percent of our business was true lease and 70 percent was full payout,” she states. “People liked to own their equipment and capture it as an asset on their balance sheets. Today, it’s just the reverse.”

Jeff Bailey, director of Crown Credit at Crown Equipment Corp., has been with the company for 25 years and has seen trends come and go. “Years ago, leasing wasn’t as popular. I think it got a bad name due to the horror stories at the end of the lease: how much people had to pay, and how customers were being ‘nickel and dimed.’” Today, Bailey says he’s found that operating leasing is by far more popular than outright purchase. “As prices escalate, customers are looking for more affordable ways to pay for equipment,” he says.

To Buy or Not To Buy...

According to Geoff Sisko, assistant vice-president of material handling systems consulting firm TranSystems | Gross & Associates, companies with large fleets tend to lease more than buy, while smaller companies may buy new or used trucks rather than lease. There can be some downsides to buying,

though. “Buying affects the P&L statement and possibly the balance sheet,” says Sisko. “With buying, you have more debt on the books and, in addition, if you own, you tend to keep trucks a long time, sometimes well past the operating life.”

However, there are times when buying can make sense. “If you only need one or two trucks and plan to keep them a long time, as would be the case if you don’t plan to use them many hours a year, it might make sense to buy,” adds Sisko.

Raymond’s Ginnetti agrees. “Small ‘mom and pop’ organizations may want to retain and own the asset at the end of the term.” To this point, Crown’s Bailey adds, “Mom and pop’ organizations usually don’t put a lot of hours on their trucks, so the equipment lasts longer.” For them, he says, outright purchase may make the most sense. “They also don’t need to stay abreast of the latest technology changes, which is something that large companies that lease can benefit from by getting new trucks every three years or so,” adds Bailey.

There is another potential benefit to buying that is worth considering—as long as it involves the purchase of electric lift trucks. “Many states offer tax benefits due to green initiatives,” says Janet Appleby, financial services manager for Jungheinrich Lift Truck Corp. USA. “You may even be able to qualify for these tax benefits if you do a dollar buy-out lease, because you will end up owning the equipment at the end of the lease payments,” she adds.

Five Noble Reasons To Lease...

When all is said and done, there are five key benefits to leasing over buying lift trucks:

1. According to Yale's McCaughey, you don't have to list the trucks as assets on your books. A lot of companies want high return on asset (ROA), a ratio that investors use to judge the financial strength of companies. "The more assets you have on your books, the more money you have to make in order to show a return," she says.

According to Richard Pipenhagen, national sales and marketing manager for Toyota Financial Services, "An operating lease is 'off-balance sheet financing,' therefore, it does not affect the company's debt to equity ratio."

2. By leasing you don't have the burden of ownership—in other words, you don't have to worry about how to dispose of it at the end of its useful life. "Leasing gives you more flexibility when you want to change trucks, because the leasing companies will sometimes be able to swap it out," says Sisko of Gross & Associates. "However, if you own it, your only choice is to keep it or sell it and get another one."

3. The third benefits relates directly to productivity. "Companies lease because they want to use the truck during its useful life, when it provides the most uptime," explains Yale's McCaughey. "They can turn it in when it starts costing too much to maintain." These days, of course, downtime is expensive. Mark Hopkins, sales manager for Aurora Lift Truck Services, a Jungheinrich dealer, concurs with McCaughey. "Leasing reduces maintenance costs, and if you buy and hold onto trucks for a long time, maintenance costs are going to increase," he adds. Aurora offers outright purchase, leasing, and rental. It also offers financing, credit, and insurance.

4. Leasing encourages more frequent change-out of the fleet, which provides customers with the latest technologies. "Customers like having access to the latest technology, which usually provides higher productivity," adds McCaughey.

5. Finally, leasing can provide more financial flexibility. "Leasing is good for new companies or struggling companies that need to keep their cash flow strong," says Jungheinrich's Appleby. Aurora's Hopkins agrees. "Leasing is particularly useful for start-up companies because it doesn't tie up their cash," he adds. "It also doesn't interfere with their line of credit at their bank." In summary: "Companies that require flexibility in terms of time use, application, specifications, capacities, and attachments often lease," states Toyota's Pipenhagen.

My Kingdom For A Maintenance Agreement

When leasing, or even buying, maintenance is something to consider. Some leases come with maintenance agreements while others don't.

"We can add maintenance to lease payments, so customers not only get the truck but get full maintenance where one of our dealers comes out and maintains the trucks on a periodic basis," states Yale's McCaughey.

Years ago, according to Crown's Bailey, a lot of companies had their own lift truck mechanics. Today, that's not the case. "They don't want to have to pay these people to be on staff and keep them current with maintenance and repair practices and technology," he says. For Crown, Bailey says the 60-month operating lease with maintenance is probably its most popular product. "This can be planned maintenance, where the units are checked for repairs that may be needed," adds Bailey.

Wherefore Art Thou Rental?

Don't forget to consider renting. If your work is seasonal or has peaks and valleys, renting can be a useful supplemental financing option to consider. "You can use your regular purchased or leased trucks for consistent work, and then rent to take care of peaks and valleys," suggests Sisko. It's possible to have an ongoing agreement with a dealer. For example, between August 15 and December 15, a company may have an extra shift and need four more trucks. "You can acquire these through a short-term lease or a long-term rental agreement," he suggests.

Renting can also make sense if the future prospects of the business are not clear. For example, if your company is not sure if business is going to grow or shrink, renting on a month-by-month basis until it has a better idea of what will happen with the business can be a good plan.

Neither A Borrower or A Lender Be

When customers sell their purchased trucks or return their leased trucks at the end of the lease, the trucks have to go somewhere. Remember, most of those trucks can be refurbished and made available for resale.

"Some customers buy used trucks while some also lease used trucks with lower residuals, or a dollar buy-out finance option," says Aurora's Hopkins. Dealers like this, he says, because it is a great pipeline for their used truck inventories. They've done the maintenance on the truck, and they know the application. "The dealers recondition it and then make money on it on the used side," Hopkins adds. Crown Credit has its own division that handles remarketing used trucks, according to Bailey. "We have a product called Encore where we rebuild the equipment from top to bottom and offer a long-term warranty," he says. "This is popular among secondary users."

As You Like It...

While the manufacturers are obviously proud of the financing options they offer, it really comes down to what individual customers want, based on their unique circumstances. Let's take a look at two lift truck users and the types of financing that makes the most sense for them.

IFCO Systems of Houston, Texas, a Yale customer, is a pallet remanufacturer and recycler. It touches about 20 million pallets a year and its customers include WalMart, Target, Home Depot, and large grocery store chains. "We acquire about 150 lift trucks a year," says Mark McPherson, national credit, collections, and purchasing manager for IFCO. According to McPherson, most of these are on 36-month leases due to the hours the company puts on the units. "When we turn them in, they have a lot of hours on them, about as many as most companies would put on in five years," he explains. "If we leased for 60 months, we would end up with a lot of mechanical failures and other maintenance issues. We found that the cost per unit increases substantially after 36 months." With Yale's lease, there is usually an option to buy, but IFCO opts to turn the trucks in.

"It appears to me that leasing is more popular these days in general," observes McPherson. "One reason is that leasing companies are more lenient in the way customers can turn the trucks back in. We work in industrial environments, so trucks get nicks and scratches." Years ago, he recalls, leasing companies would "nickel and dime" the company to death. These days, a lot of companies actually waive these damage charges.

Batavia Container Inc., a long-term Aurora Lift Truck customer, leases trucks and is under the full maintenance program. In the past, the company used to purchase trucks outright. "However, we have found it is easier to acquire lift trucks by leasing,"

states Chuck Wasinger, Batavia's vice president of finance and operations. "The costs are more predictable."

According to Wasinger, Batavia doesn't want to have to spend a lot of time looking at the cost of operating lift trucks each time it needs a new one. "The full-service lease option is very standardized and simple to understand," he says.

"We can understand the costs involved, because all costs are included. The only thing that changes with each truck is the capital cost and the interest rate, which we negotiate." Batavia can also budget for it. All of the costs, including maintenance, are included in the full-service lease option. "Since it is Aurora's lift truck, they are responsible for its value at the end of the lease, so they have an incentive to maintain it at a high level," he adds.

"If you buy a truck, the maintenance costs become unpredictable after the warranty."

Five things to consider when financing lift trucks

By William Atkinson

1. Look for the best interest rates, which will probably be from the manufacturers themselves and the finance companies with which they work. "We can offer some subsidized rates to our dealers for their customers," says Jungheinrich's Appleby. "This is often a point or two below the average interest rate, which brings the monthly cost down."

Aurora's Hopkins says that most banks are not set up to do lift truck leasing and provide the residual values at the end of the lease. "Our leasing is factory-subsidized, so the interest rates are competitive," he

says. Aurora can call in credit information, and within four hours, it knows if Jungheinrich's financing company will provide a line of credit, if more information is needed, or if it's not going to happen.

2. Make sure the dealer is up-front with all of the relevant information. Aurora's Hopkins always shows customers the price of the truck up front, the term (two years, five years, etc.), the residual, the interest rate, whether or not there needs to be money down, the monthly payment for the number of months, and the buy-out option at the end of the lease. According to Hopkins, some dealers wait for customers to ask all of these questions. "We always volunteer all of this information up-front," he states.

3: Consider residual value. "The residual value of a truck is determined by the application and usage of the truck," says Raymond's Ginnetti. "If you're leasing equipment that is going into a foundry, the residual value will obviously be less than if you're operating it in a retail environment."

4. Study and negotiate the contract. "When negotiating the contract, make sure all of the responsibilities are spelled out, such as repairs to the truck if the lift truck driver causes damage," suggests Batavia's Wasinger. "These can be gray areas unless you negotiate them up front. Some fall into normal wear and tear, while others fall into the driver-responsible category."

5. Finally, look for flexibility in the contract. Example: "We can offer lease programs where payments are seasonal, including skipped payments, based on customer requirements," states Crown's Bailey.

Bill Atkinson can be reached at w.atkinson@mchsi.com
