



FIND EQUIPMENT FINANCING THAT FITS

Avoid common pain points by addressing problems in the financing process

BY ADAM ALLAN

When it comes to buying equipment for your construction company, there are several steps in the process. With these steps come pain points. This article discusses ways to identify and overcome each pain point for an easier equipment financing process—no matter how large or small the purchase.

GET STARTED

The initial pain point is getting started. Where do you begin the journey, especially if you're in a rush? The following are a few steps you can follow to ensure you start out on the right foot.

- If you already own equipment, complete an inventory of what you have available and determine if something is a contender for sale.
- If selling current equipment isn't an option, start with forecasting. Look at your financial statements to see if you have the cash flow to manage a monthly loan or lease payment. If so, for how long? Ask yourself if it's a viable option for short term or long term.
- Determine if you need to buy outright, upgrade or expand.
- Decide if new equipment is required or if used equipment will work for your needs.

Once you have assessed and answered the steps above, you can begin to formulate the financial plan.

PREP EQUIPMENT

The second pain point is prepping equipment for sale. If you are leveraging existing equipment to purchase new equipment, it should be in excellent condition. Buyers on the market are not interested in decrepit equipment options. Follow these steps to begin the equipment preparation process.

- Clean the equipment.
- Service parts and accessories.
- Make sure all damaged parts have been replaced.
- Work with an inspector to make sure the equipment will pass all tests; this will save you time at the auction house or with a broker.

GO TO AUCTION

If you're in the market for used equipment and want to buy at auction, be prepared for pain point number three: the screening process. At some auction houses, anyone can join the bidding process. Other auction houses require you to be financially preapproved and undergo a screening process before you can bid.

FIND A FINANCING OPTION THAT BEST FITS YOUR NEEDS

▪ **Installment or secured business loan**

Allows for interest-expense deductions and depreciation, but you may also trade in current equipment or provide a low down payment with structured payments over time. In the end, you are the owner.

▪ **Operating lease**

Rent for a set period of time with the option to return your equipment at the end of the lease term or extend the lease with an option to buy.

▪ **Capital lease**

The lessee has an ownership interest in the equipment, which means you report the lease as an asset and a corresponding liability.

▪ **Fair-market value**

At the term end, you have three options—extend the term, return the equipment or buy the equipment at (then) fair market value.

▪ **10% security deposit**

If you can afford the down payment, it helps reduce monthly payments and decreases the overall loan amount. End-of-term options apply, including extending the agreement or returning the equipment and requesting the security deposit.

▪ **10% purchase option**

The upfront amount is applied to the end of the term payment. At the end of the term, you have the option to buy the equipment at 10 percent of the original cost, continue to finance it or return it.

▪ **\$1 buy-out**

Applicable when you know you want to buy the equipment upon term end. You may then buy it for \$1.

1. Inspect the equipment's coolant. If you see any oil present, don't buy it.
2. Ask if the equipment was seized. If so, you should avoid it as well, because more than likely it wasn't well-maintained.
3. If the paint is brand new, be sure to check all the parts. New paint may be a cover-up for more serious problems such as leaks, cylinder damage or defunct roller gauges.
4. Look for welded joints. These can be a red flag for previous breaks and repairs.
5. Consider purchasing a popular equipment brand. This will make it easier to find replacement parts, if needed.

NEW TECHNOLOGY

New technology and its impact on purchase price is pain point number five. You may have been holding onto equipment since before the recession. If that's the case, you'll find that newer machinery options have more advanced technology, including telematics data. This data allows equipment managers to better understand the workings of their equipment and put hard numbers against the cost per unit of work against the purchase price. If you're unfamiliar with telematics data, educate yourself on the subject before buying anything new.

FINANCING OPTIONS

The final pain point is the question of where will you get the money. Once you've determined if you are going to buy or lease the equipment, there are several forms of financing options available. While there are several options available for equipment acquisition, it's important to tailor your decisions to fit your company's needs. Renting might be the best option for some business owners, but it doesn't have the return on investment that reselling equipment down the road will give you. Examine every avenue available before making a purchase or signing a lease.

In the end, successful equipment financing is all about doing your homework and taking the buying decision seriously. Large-scale equipment purchases impact a company's bottom line and cash flow for several years. It's important to know what you're getting into before you sign on the dotted line. **CBO**

Adam Allan, CPA CGMA and owner of Lang Allan and Company, has 20 years experience auditing public and private companies. Allan has developed and implemented financial strategies, processes and controls that significantly improved clients' financial statements and stability. For more information, visit langallancca.com.



BUY USED

If you want to avoid the potentially arduous auction process, but still need used equipment, consider buying directly from a reseller. However, this leads to pain point number four: what to know before you buy.

Just like buying a car, you want to test drive the equipment prior to purchase. Be sure to test every gear/speed and movement. Doing so will give you a feel for the way the equipment handles, but also how it will operate overall.

There are a great number of problems to check for during a used equipment assessment. While you may not find every flaw, the following tips can help you get started evaluating your potential purchase for conditions of operation.