



LEASING VS. BUYING:

What is Right for Your
Equipment Needs?



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When it's time to add to your fleet of equipment, there are two primary options for financing—buy or lease. Although more than 80 percent of U.S. businesses lease equipment, according to the Small Business Administration, it remains a relatively uncommon practice in the cleaning industry.



In short, a lease allows users to make payments to a vendor to borrow a machine for a set length of time. When the contract is up, the user returns the equipment to the leasing firm. Many leases, particularly in our industry, also provide an opportunity the leaser an opportunity to purchase the machine at the end of the lease for an amount identified in the lease. It's a fairly straightforward arrangement, but like most things, there are pros and cons.

Before deciding whether to lease or buy, first calculate the estimated annual cost of each option. For purchasing, add the price tag and average lifetime maintenance costs, then divide by the expected lifespan of the machine. For leasing, add up a year's worth of monthly payments (plus any maintenance contracts and down payments, divided by the total length of the lease). Although this isn't the complete picture, it's a good snapshot of the difference.

THREE COMMON REASONS FOR LEASING RATHER THAN BUYING.

1. To gain access to expensive machines a facility manager or BSC otherwise couldn't afford. For example, a small BSC wanting to grow needs several new ride-on machines at \$15,000 each. While buying would empty cash reserves or devour available credit, a lease eases the financial burden.

2. To remain competitive with the most up-to-date equipment. This can be a particularly important point for BSCs, since the lease term can be matched to the term of the cleaning contract. A lease can help a business remain current for a fixed amount of money each month.

3. To reallocate budget dollars toward money-generating efforts. A manager or BSC can redirect a portion of the cash that would have been spent on a new machine toward other expenses. As an example, a marketing program that could pay back tenfold in new business.

Before leasing a machine, make sure you understand what type of lease you're signing. The leasing industry isn't regulated like the banking industry, so you should always consult with your accountant and attorney. An uninformed lessee could be shocked when hidden fees increase the monthly payment beyond what was expected.

LEASING PROS AND CONS



PROS:

Typically, a lease requires only a small or no down payment. Lease payments come from the operating budget (showing up on the balance sheet as an expense, not a purchase), which preserves working capital.

The monthly payments on a lease are can actually be lower than on a bank loan to buy the same equipment.

Leasing protects a business' credit, allowing it to save its bank-borrowing capacity for other needs or emergencies.

Equipment is typically leased new, so the borrower gets it during the most trouble-free part of its lifespan.

Vendors usually offer the same level of support on leased equipment as products that are purchased outright. In other words, leasing does not affect the cleaning equipment warranty and the customer has full rights to the terms of the warranty, just as if the equipment were purchased outright.

A portion of or all of the leasing fees are tax deductible as an operating expense. In fact, Section 179 of the IRS Tax Code allows for accelerated deductions, which can be a very effective tax strategy.

CONS:

Paying interest rather than cash (or paying a higher interest rate than on a bank loan) means a lease can be more expensive in the long run.

The user must commit to keeping the equipment for the entire lease period, regardless of changes in their business.

If the user chooses to buy the machine at end of the lease period, the total cost will be higher than if they had purchased it from the start.

The user is typically responsible for some or all of the equipment's maintenance costs during the lease.

With no ownership rights during the lease period, if a piece of equipment is no longer needed, the facility or BSC cannot sell the equipment or terminate the lease, until the lease obligations are met.

ANATOMY OF A LEASE



There are many types of leasing programs available, and which one you choose depends on what the vendor offers and on your needs and resources. Leasing in our industry is typically handled by third party firms and not directly by the manufacturer or selling dealer. Several leasing firms actually specialize in the cleaning industry, which can be a plus since they're experts in cleaning equipment leasing and financing. Here's a brief overview of the options most common in the cleaning industry:

\$1 Purchase Option Lease: A dollar purchase option lease, which is also known as a "capital lease" allows the lessee (customer) to own the equipment at the end of the lease term for just \$1. Lease terms are typically 24 to 48 months, and again title to the product transfers at the end of the lease to the customer.

10% Purchase Option Lease: Lease terms for this lease normally range between 24 to 36 months, with one payment due upfront or in advance. At the end of the lease term, the customer can buy or return the equipment to the leasing firm.

No Payment for 60 Days: This lease can be a plus for BSCs starting new jobs or cleaning contracts, helping them control contract startup costs. The term on this type of lease is typically 30 months.

Most leasing firms, particularly those specializing in the cleaning industry also offer Equipment Finance Agreements (EFA). With an EFA, title normally transfers up-front to the customer and the most common terms are 24 to 48 months. EFAs through leasing firms usually are faster and involve much less paperwork than financing equipment through your bank. Most leasing firms will also execute ETFs on amounts or purchases much smaller than banks will.

ABOUT TORNADO

Tornado Industries, Inc. is dedicated to delivering “Best-in-Class” commercial and industrial cleaning equipment and after-sale service that meets and exceeds the expectations of our customers. In the industrial cleaning business for over 85 years, Tornado® has a strong entrepreneurial history of partnering with in-house cleaners, contractors and facility managers to provide cleaning solutions that deliver innovation, reliability and competitive pricing.

Thanks for taking the time to download this ebook. If you would like to explore additional topics pertaining to running a cleaning business visit the [Resources section](#) on our website. For more information about Tornado products and services, or to schedule a product demonstration, visit our website at www.tornadovac.com or contact our sales and marketing team directly at marketing@tornadovac.com.

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