

Financing Strategies; Lease, rent or buy? Here are some guidelines that will make sense on for your bottom line.

By Bill Atkinson, contributing editor

Some lift truck fleet owners like to hang onto their equipment until it falls apart. Squeeze every dime out of it, that's their motto. However, for those who lease their equipment, five years is a reasonable time span to keep a truck in service. At least that's what the majority (36%) of respondents to Modern's recent Lift Truck Customer Satisfaction Study told us. Thirty percent said every seven years. At the extremes, 10% replace their lift trucks every 3 years, 18% said every 10 years and 6% said more than 10 years.

So what is the best way to finance lift truck purchases? According to most manufacturers we contacted, leasing is the way to go. Outright purchasing, they report, is no longer the norm, except for customers that purchase a very small number of trucks.

“Ten years ago, about 30% of our business was true lease and 70% was full payout,” says Christina McCaughey, director of financial services for Yale Material Handling. “People liked to own their equipment and capture it as an asset on their balance sheets. Today, it’s the reverse.” Buying, she believes, makes sense if you only need one or two trucks and plan to keep them a long time or not use them very many hours a year.

One benefit of leasing, according to McCaughey, is that you don't have to list the trucks as assets on your books. A lot of companies want a 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.

Another benefit relates to productivity. “Companies lease because they want to use the trucks during their useful life, when they provide the most uptime,” explains McCaughey. “They can turn them in when they start costing too much to maintain.” These days, of course, downtime is expensive.

Leasing also 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,” says McCaughey.

Rental is another option. “If a customer is not sure where their business is going, renting might make sense,” she says. “It may make sense to rent trucks on a month-by-month basis until they have a better idea of what will happen with the business.”

Toyota Financial Services, which provides financing for Toyota Material Handling U.S.A., has also seen a strong trend toward leasing and away from outright purchase. According to Richard Pipenhagen, national sales and marketing manager for TFS, lift truck purchasing allows a company to invest in equipment.

“However, it will tie up the company's capital in an asset that naturally depreciates with age,” he adds. “By choosing a lease option, companies are able to put their capital to work in short-term and long-term

revenue-generating activities, such as real estate improvements.” In addition, Pipenhagen adds, leasing offers greater flexibility to update lift truck fleets with the latest models featuring the latest technology.

Toyota Financial Services offers two types of leases. One is an operating lease, where there is no future equipment purchase. This is “off balance sheet financing.” The other is a capital lease, where the equipment is leased for a set term, and the customer has the option to purchase it at the end of the agreement.

When a customer funds from a captive finance company, such as TFS, it allows TFS to leverage its relationship with Toyota and the dealer network in order to remarket a customer’s used lift truck equipment before financing the new trucks. “This option may also have special financing linked to the equipment, which will provide the customer with a more competitive pricing structure,” he adds.