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# Equipment Leasing vs. Purchasing: What Distributors Should Know

## As distributors look to modernize their facility equipment, financing is always the biggest question. This Q&A sheds light on what distributors should keep in mind as they consider buying vs. leasing.

The distribution sector is awash with available equipment that can help them modernize their physical operations and take advantage of warehouse automation. From electric forklifts, robots and other material handling equipment, to smart vending machines, to conveying systems that have the latest technology, distributors have plenty of options for improving warehouse efficiencies and doing more with less human labor.

Of course, that all comes with a price — often a hefty one — and often involves determining if leasing or purchasing that modern equipment is the right financial decision.

To shed light on this topic and answer some of the need-to-know questions for distributors, I recently spoke with Elise Hardy, Regional Vice President at First Financial Equipment Leasing, to pick her brain about cash flow issues distributors face when it comes to equipment affordability and what their financing options are.

Hardy touched on the pros and cons of leasing vs. purchasing facility equipment, how to calculate the ROI for leasing and the tax implications involved.

See our conversation below:

Elise Hardy

**Mike Hockett, MDM: Distributors know they need to continue to optimize their warehouse operations, so why are so many putting off automation and modernization efforts? Is it simply cost?**

**Elise Hardy, RVP at First Financial Equipment Leasing:** Although the operational benefits and financial justifications are obvious, many distributors continue to delay essential automation projects and capital expenditures. While some may see the potential value of modernizing their supply chain through automation, many lack the capital or liquidity for the outlay. What's more, integrations can come with a hefty price tag – particularly when considering significant costs for installation, engineering, and software. Often, it's not just the cost of the technology that's a concern, it's also paying for the "soft costs" and getting the right resources in place to make it all work as intended. Most distributors don't have these resources in-house, so there are resource issues on many levels.

Distributors are also experiencing cost increases – both from suppliers and shippers. The reality is that while making the warehouse more efficient is critical, many distributors would rather use their capital to invest in inventory. But it doesn't have to be an either/or scenario; distributors can have both.

**Hockett: Most people understand the concept of leasing versus purchasing; what elements of leasing are not well understood that can be of benefit to distributors?**

**Hardy:** Leasing can conserve capital by providing 100% financing, and the leasing partner pays all the upfront payments, which can ensure distributors achieve improved time-to-value from equipment and technology. This is because, normally, equipment and technology vendors expect a 30 percent down payment upon order. These days, given supply chain challenges, that means a distributor may have to wait many months — maybe up to a year — for that equipment to arrive after paying this money out.

A leasing partner will make all these upfront payments, enabling distributors to gain the benefit of these solutions immediately when the lease commences. Additionally, there's the option to wrap all project costs such as engineering, software, services, freight and installation into one monthly payment. This is significant because these project costs can sometimes account for 50 percent of the total installation. So, for a $20 million project, this may amount to $8 to $10 million in project costs. And often banks won't finance these project costs, because there's no asset with these "soft costs."

Finally, flexibility at the end of the lease term allows distributors the option to purchase the equipment or upgrade to newer equipment.

**Hockett: What is the one key topic you'd flag for distributors to zero in on when it comes to leasing considerations?**

**Hardy:** Credit risk is an important consideration. Some vendors might go into an equipment leasing or robotics-as-a-service contract with a start-up company and not realize the credit risk may be considerable.

Many equipment and technology vendors will take the risk of offering leasing, offering quarterly or annual payment options, but it's important to understand leasing/financing is more than an adjunct side business. Many of these vendors are not set up as a receivable to collect and allocate the funds the same way as lessors that have been in the industry — through all the ups and downs of both bull and bear markets. Be sure to evaluate solvency and credit standing.

An experienced leasing partner can take the burden of risk off the vendor by billing the customer directly and covering the cost of the robots and services up front, allowing the vendor to focus on what they do best — maintaining their equipment.

There are also other risk considerations. Leasing equipment reduces the risk of obsolescence to the lessee and passes the risk of residual value to the lessor. This is critical as older equipment can leave distributors subject to operational inefficiencies — one study claims U.S. businesses lose up to $1.8 billion each year in wasted productivity due to obsolete technology. However, there are also other forms of "wastage" from older or outdated technology and equipment. This includes higher upkeep and maintenance costs as well as potentially being left vulnerable to security risk from data breaches due to outdated security measures.

**Hockett: Is leasing right for every distributor?**

**Hardy:** There are benefits to both leasing or owning equipment and technology, depending upon a company's objectives. Suffice to say, it's imperative to perform a cost analysis to help identify when to lease versus when to purchase a piece of equipment. This comparison is generally done through a discounted cash flow analysis, which examines factors including the timing of payments, interest rates, tax benefits and other financial considerations in each arrangement. Financial models are readily available to help with this type of analysis. Regardless of whether you are thinking of leasing or purchasing, it may be helpful to speak with a financing expert so you have the confidence you're making the best choice for your business.

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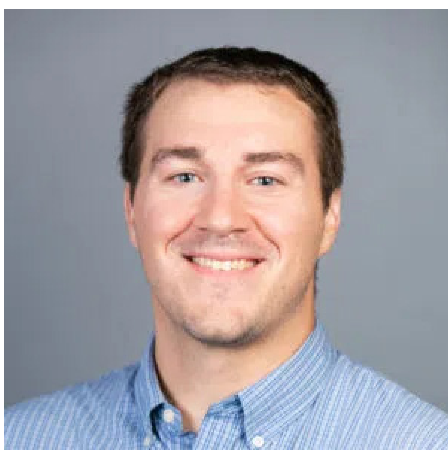
## ABOUT THE AUTHOR




### Mike Hockett

Mike Hockett is MDM's executive editor, having joined the publication in March 2022. He oversees MDM's editorial content and direction, coordinates with contributing authors, conducts interviews with executives in the wholesale distribution space and serves as the editorial face of MDM at industry events. He has extensively covered the distribution and manufacturing sectors since 2014. Hockett earned a degree in print journalism from the University of Wisconsin-Eau Claire and works from his home in Madison, Wisconsin. He can be contacted at mike@mdm.com.