How to
Manage Business Cash and Credit With Equipment Financing

A LEAF Coffee Break Guide

LEAF

LEAF Commercial Capital, Inc. is a subsidiary of People's United Bank, N.A.

Ready? Grab a coffee and let's get busy.

Equipment financing has earned its reputation as a smart, flexible way to acquire the equipment a business needs to operate and grow. What's less appreciated is equipment financing's power as a comprehensive cash and credit management tool.

Used correctly, equipment financing can relieve pressure on existing credit lines. It can save thousands in business credit card interest. And, most importantly, it frees up cash you can put to work in other areas of your business.

8 out of 10 businesses finance equipment. It isn't hard to see why.

If you don't have equipment financing in place, it all starts with finding the right equipment finance company for you. If you've done business with an equipment finance company in the past, maybe it's time to take another look to see if there's an option that's a better fit. That's where we'll start in this quick guide.

STEP 1

Establish a Relationship With the Right Equipment Finance Company

A large percentage of businesses contact an equipment finance company only when they need equipment – often desperately. It's like getting gas for the car when the needle's on E. There's not much choice but to fuel up at the closest place with a decent price on the sign.

In the same way, an immediate need for equipment often prompts a quick Google search. Because there's often downtime (or missing out on a big order) to worry about, any one of the top three results will do, as long as the rate's reasonable and you can avoid an unexpected raid on your cash account.

Right? Maybe. If you're lucky. But why let it get to the point where you're pressed for time and forced to choose based on immediate convenience, instead of long-term strategy and business flexibility? Waiting until you have to act has a number of downsides. *Refer to Figure 1 for a few.*

There are more pitfalls to choosing a finance company at the last minute, but by now you've got the idea. Being proactive about it is just smart.

Sure, you'll spend time weighing your options. But it's time well spent because choosing an equipment finance company now – whether or not you need equipment now – can easily save you time down the road (and money too, let's not forget).

Think of it this way: you probably chose suppliers before you had any particular purchase in mind. *Why not equipment financing?*

FIGURE 1

Waiting until you have to act has a number of downsides.

INERTIA

Hastily choosing an equipment finance company means you're likely to stick with that same company for years to come, whether or not it happens to be the best choice for your business. Simply put, we go with what we know. Most of us, busy as we are, go with what we chose in a hurry rather than put in the time and effort to seek an option that's the best fit.

RUSHED CHOICES

Think about when you're most likely to contact an equipment finance company for the first time: when a relatively expensive (and highly important) piece of equipment breaks. In that scenario, you don't have time to properly weigh your options. You just need a replacement, fast. That can really cost you in the long run, both in terms of choosing so-so equipment just because it's in stock and in choosing a so-so finance company just because they're the first result from Google.

LOCK IN/TIE DOWN

Need an equipment upgrade? Depending on the equipment financing option you picked in a rush, that may or may not be easy. Or it may not be possible at all, at least until you've finished paying off equipment that's growing more out-of-date by the day – and sapping your productivity and competitive edge along the way.

Now's the time to establish a relationship with a great equipment finance company. So what do you look for? This, for starters:

Simple Applications and Documents

Applying for financing on most equipment shouldn't take all day and contracts shouldn't take a law degree to figure out. The best equipment financing solutions let you apply in minutes and documents are short and written in easy-to-understand language.

Low or No Down Payments

A 10% or greater down payment requirement can put new equipment out of reach, especially when cash is tight. But even if the cash is available, financing with no (or low) down payments lets you hold onto more of it to deal with emergencies and seize opportunity.

100% Financing

Having to come up with out-of-pocket funds to cover delivery, installation, maintenance and other costs can also hurt your cash flow. Look for a provider that will finance the entire cost of a complete solution.

Flexibility

Does your business volume vary by season? Will it take time to get productive with new equipment? Look for a financing solution that can accommodate changing business conditions and ease you into payments while you're getting up to speed.

Option to Mix New and Used Equipment From Any Vendor on a Single Agreement

Multi-vendor solutions don't have to mean the hassle of multiple agreements. Neither do solutions with a mix of new and used equipment. Choose a solution that allows you to finance everything on a single convenient agreement.

Software Financing

Yes, software can be financed. Software can even be included on the same agreement as equipment, which is especially convenient for networking, VoIP phone systems and other technology solutions.

Easy Add-ons

With some financing solutions, acquiring additional equipment means jumping though all of the hoops involved in a new agreement or extension to a line of credit. When add-ons are that much trouble to arrange, it's tough to compete against businesses that can easily add equipment at any time using flexible financing. So make sure your financing solution offers options such as a master lease, which makes acquiring additional equipment a matter of a quick phone call.

Mobile-Friendly Financing

There's very little you can't do on a tablet or smartphone and that includes financing equipment for your business. A mobile-friendly financing solution lets you easily apply for equipment financing wherever you are, on whatever device you happen to have with you. That's great for taking advantage of trade show specials, for example.

Quick Responses

When you need equipment fast, the last thing you want is a slow credit response or having to wait a week or longer to get funded. Look for an equipment financing solution with a response time measured in minutes and same-day or next-day funding for most requests.

A Team That Knows the Needs of Businesses in Your Industry

Some financing companies will finance almost anything. But others have built a reputation for solutions focused on the unique needs of businesses that do what you do. While these companies more than likely also work with businesses in other industries, they maintain a team of experts dedicated to understanding and serving businesses like yours.

Don't wait until equipment breaks to find a finance company. Start today and have a financing solution that fits and is ready to go when the need arises.

STEP 2

Keep Credit Lines Open With Equipment Financing

Now let's talk about credit lines. Business credit lines have their uses. But they're also very easy to overuse. And that leads to problems like these:

INTEREST
Say you want to take advantage of a volume discount from a supplier but don't want to dig that deeply into your cash account. A business credit line can help you get the discount. But you'll have to be careful to pay down your line over the next few months. If you don't, interest fees will eventually erase your discount. Business credit lines are best when they're used as a short-term solution.

A BIG HOLE IN YOUR SAFETY NET
A business line of credit (and cash and a ready-to-go equipment financing solution) can give you peace of mind. If something goes wrong (and it will), an open credit line gives you more resources to do something about it, rather than just worry about it. Redlining your credit line compromises that safety net – and it gives you yet another worry you don't need.

HIGH CREDIT UTILIZATION
High credit utilization reduces your credit score. A good rule of thumb is to avoid using more than 30% of your credit line at any one time (that goes for other sources of credit, too).

Okay, so that's why you don't want to overuse a credit line. But if your credit line's pretty much all you have at hand – aside from a few credit cards, maybe – it's what you'll use when you need credit. And your available credit will inevitably become... well, unavailable. The best way to combat this is to take steps – right now – to be sure you've got other options. And since we're being proactive, it makes sense to choose financing sources tailored to specific business challenges.

One of the biggest business challenges? Staying up-to-date with the latest, most productive equipment, as well as handling the cost of unexpected equipment failure. In fact, since most businesses can't do business without their (often very costly) equipment, a breakdown can eat up a credit line fast – or wreak havoc on a cash account.

That makes equipment financing one of your top strategies for keeping credit lines open to handle short-term needs. After all, equipment tends to be an investment for a longer term (unless the technology is changing at breakneck speed).

So why tie up your short-term resources on it? Better to have equipment financing lined up and ready, both for planned and unplanned equipment acquisitions. Not only will it preserve your business credit lines (and keep your credit score up), you'll also see other benefits that include:

- Flexible payment plans that account for seasonal and other fluctuations
- The option to own equipment or return it for an upgrade at the end of the financing term
- Deferred payments that allow you to use the equipment with no money out-of-pocket for three to four months (or sometimes even longer)
- Expenses that are better paced to the revenues your equipment generates, rather than big upfront investments you have to wait years to recoup

To recap, business credit lines are best for handling short-term needs. For equipment, financing is better, both in terms of keeping your credit lines open and providing a more flexible (and often more affordable) way of equipping your business.

STEP 3

Watch Your Business Credit Card Habits

Like business credit lines, business credit cards are easy to overuse.

Chances are, you've got one on you right now. Or maybe in your desk drawer. Certainly close at hand. Probably, one or more of your employees has quick access too.

That all adds up to a tool that can be useful, in the right situations, but dangerous.

Say Sam's at a tradeshow. She sees a must-have upgrade to a piece of equipment she uses in her business every day. That equipment is pretty expensive, but there's a show special Sam can take advantage of if she is willing to BUY RIGHT NOW. So the machine's still pricey, but also a deal. Sam's mind is made up – she's getting this.

How does she pay? Thanks to her excellent credit history, Sam's business credit card limit is impressive. She definitely doesn't want to fiddle with a loan application.

Financing? That's an option, but what about all the paperwork?

But that credit card, it's right there in her pocket.

Hand it over, *swipe*, done.

This is how credit card balances grow. And the thing is, a growing credit card balance tends to support its own further growth thanks to high interest piling on month after month, not to mention the convenience of plastic, which makes subsequent purchases all the more likely.

Sam should probably forgo the credit card in favor of equipment financing (which, surprising to Sam, doesn't really require much paperwork) or a loan (which usually does require considerable paperwork).

Like business credit lines, business credit cards are best used (and paid) with the short term in mind, whether to get you over a small patch of slow business, stock up on supplies while they're on sale, or buy inventory, if you expect it to sell within 30 to 60 days.

You could even buy expensive equipment with it, as long as you can pay down the balance fast (but then you could be compromising cash flow).

The golden rule with business credit cards is to use them only if you can pay them off quickly, at most within a few months.

Of course, if your credit card company is offering a no-interest promo, by all means take advantage of it, always keeping in mind the 30% credit utilization guideline and how it could affect other efforts to borrow.

To sum up, business credit cards, despite the discussion above, have their advantages. Just keep in mind their limitations and when they're best used.

STEP 4

Use Equipment Financing to Control Cash Flow

Finally, let's take a moment to talk about cash. The biggest threat to business health is poor cash flow. It's tough to keep the doors open and the lights on without sufficient cash. And that's why every business decision must consider the effect on cash, both immediately and down the road.

How to pay for the equipment a business depends on is one of those decisions.

Monthly Billing

Spreading the cost of equipment over the equipment's useful life has its advantages. Rather than paying up front and waiting years to recoup your investment through greater productivity, financing equipment lets you pay over time as your equipment generates value.

Payment Flexibility

With the right financing plan, you can pay less when business is slower and more in your busy times. This is a powerful way to keep your cash flow from rollercoastering out of control.

Greater Buying Power

Most businesses can afford more (and better) equipment with financing. Better equipment means better results, in less time and often for less money. And that means less cash out now, thanks to financing and more cash in over the life of the equipment, thanks to the greater productivity of better equipment.

Inflation

While the rate of inflation has been low for a number of years, signs point to an increase soon. In any case, a dollar today has more value than a dollar in a year's time. By paying upfront for equipment, you're essentially paying a premium in today's higher-value dollars, rather than spreading your expenditure over time.

Staying up to Date

Not only can equipment financing help you afford more now, it gives you an easier way to stay current with the latest technology in the future. Instead of getting stuck managing assets (often rapidly depreciating assets), you can focus on managing productivity. Just a phone call or two and an update to your existing financing agreement is often all it takes to arrange an upgrade. And your cash flow remains steady and in control, rather than taking a nosedive every time you replace equipment.

Thanks for reading! We hope this LEAF coffee break guide to managing cash and credit with equipment financing has been helpful. Questions? Comments? Anything you'd like us to add? Just let us know.

Need easy, affordable equipment financing that keeps you up-to-date and competitive while helping you manage cash and credit?

LEAF helps you do all that and more. To begin a discussion, contact your LEAF Account Champion today or get in touch at info@LEAFnow.com – we'll be happy to discuss what we can do for your business!

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