

SMALL BUSINESS



LEASE FINANCING FOR SMALL BUSINESSES

In Chapter 20, we saw that under certain conditions leasing an asset can be less costly than borrowing to purchase the asset. For the small firm, leasing often offers three additional advantages: (1) it conserves cash, (2) it makes better use of managers' time, and (3) it provides financing quickly.

CONSERVING CASH

Small firms often have limited cash resources. Because many leasing companies do not require the lessee to make even a small down payment, and because leases are often for longer terms and thus require lower payments than bank loans, leasing can help the small firm conserve its cash. Leasing companies also may be willing to work with a company to design a flexible leasing package that will help the lessee preserve its cash during critical times. For example, when Surgicare of Central Jersey opened its first surgical center, the firm did not have sufficient cash to pay for the necessary equipment. Surgicare's options were to borrow at a high interest rate, to sell stock to the public (which is difficult for a startup firm), or to lease the equipment. Surgicare's financial vice-president, John Rutzel, decided to lease the needed equipment from Copelco Financial Services, a leasing company that specializes in health care equipment. Copelco allowed Surgicare to make very low payments for the first six months, slightly higher payments during the second six months, and level payments thereafter. These unique lease terms "got Surgicare through the startup phase, when cash flow was the critical consideration."

FREEING MANAGERS FOR OTHER TASKS

Most small-business owners find that they never have enough time to get everything done — being in charge of sales, operations, budgeting, and everything else, they are simply spread

too thin. If an asset is owned, the firm must maintain it in good working condition and also keep records on its use for tax depreciation purposes. However, leasing assets frees the business's owner of these duties. First, paperwork is reduced because maintenance records, depreciation schedules, and other records do not have to be maintained on leased assets. Second, less time may have to be spent "shopping around" for the right equipment because leasing companies, which generally specialize in a particular industry, can often provide the manager with the information necessary to select the needed assets. Third, since the assets can be traded in if they become obsolete, the initial choice of equipment is less critical. And fourth, the burden of servicing and repairing the equipment can be passed on to the lessor.

OBTAINING ASSETS QUICKLY AND INEXPENSIVELY

Many new, small firms find that banks are unwilling to lend them money at a reasonable cost. However, because leasing companies retain the ownership of the equipment, they may be more willing to take chances with startup firms. When Ed Lavin started Offset Printing Company, his bank would not lend him the money to purchase the necessary printing presses — the bank wanted to lend only to firms with proven track records. Lavin arranged to lease the needed presses from Eaton Financial, which also advised him on the best type of equipment to meet his needs. Recently, Lavin's firms achieved sales of \$250,000, and as his company grew, he expanded by leasing additional equipment. Thus, (1) leasing allowed Lavin to go into business when his bank was unwilling to help, (2) his leasing company provided him with help in selecting equipment, and (3) the leasing company also provided additional capital to meet his expansion needs.