

Managing cash when it's time to invest

Buying new business equipment can require a great deal of cash. In some sectors, such as agriculture or manufacturing, the cost of new equipment can be more than the business's annual turnover. Equipment finance, such as leasing or hire-purchase, helps many businesses to invest without the need for a big up-front cash investment. It also helps businesses who manufacture and distribute equipment to increase sales by helping their customers to invest when cash is tight.

Can you answer yes to all these questions?

- Do you have the equipment you need to run your business most successfully?
- If you don't have the cash to purchase the equipment you need, have you considered leasing the equipment instead of purchasing?
- Have you helped your customers to afford your equipment by offering a finance option?
- Have you considered making the most of your available bank credit lines by leasing new equipment rather than using cash from traditional bank loans?

Top five tips

1. Remember that a lease is an agreement to rent equipment for a period of time, so consider what happens after that. Unless you are sure you won't need the equipment any more, look at what it would then cost to buy the equipment or to carry on renting it.
2. Make sure you know what will happen if the equipment breaks. Some lease agreements include equipment maintenance but often it will be your responsibility to arrange servicing and insurance. You will probably have to continue making rental payments even if the equipment can't be used.
3. Be wary if an equipment supplier suggests that you change or 'upgrade' leased equipment half-way through a lease agreement. This could lead to you paying for two pieces of equipment when you are only using one. It's often better to wait until the end of the agreed lease period before upgrading.
4. If a lease agreement includes maintenance, or supplies such as paper for photocopiers, look at whether it would cost less to buy those services separately. Check who will provide the services and what would happen if that supplier went out of business.
5. If you manufacture and distribute equipment, offering a financing option can be an excellent way of helping potential customers. A commercial finance broker could help to introduce a suitable finance company to provide equipment finance to your customers. Working with a finance company you would get your cash as normal when the equipment is sold.

Links

Finance and Leasing Association www.fla.org.uk

National Association of Commercial Finance Brokers
www.nacfb.org/broker.html



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