MATERIAL HANDLING FINANCING

CONSIDERATIONS, APPLICATIONS, AND RECOMMENDATIONS

RAYMOND

INTRODUCTION

How you purchase your material handling equipment can have a direct impact on your bottom line, your customers, your lift truck operators, and your maintenance personnel.

The ideal procurement solution at any point in time will suit your cash flow needs, your business goals, your throughput requirements, and the proficiency and availability of your workforce.

This brochure will help guide you through the purchasing decision process, explain your options, list various challenges and considerations, and look into the types of operations that lease, and why.

EXPLORING YOUR PURCHASING OPTIONS

Deciding whether to buy new equipment outright or take advantage of leasing programs can be a difficult decision—mainly because there are benefits to both.

Going straight by the numbers is a good place to start, but unfortunately it only tells part of the story and requires you consider an array of details and variables, including:

Price of Equipment
Interest Rates
Discounts
Depreciation
Cost of Equipment Disposal
Fees
End of Lease Purchase or Sale
Loan Term
Down Payment
Tax Rates
Cost of Maintenance
Payments
Security Deposit
Tax Benefits

For many companies, the decision to buy or lease boils down to their corporate philosophy on ownership and their answers to questions such as:

+ Is your treasury looking for tax depreciation?
+ Is it important to only pay for what you're using (i.e. the hours you put on the equipment)?
+ Are you willing to take on upkeep and disposal responsibilities?
+ Is it a point of pride to be able to say "that's mine"?
+ Is consistently having relatively new equipment to use a consideration?

WHAT DO FINANCE COMPANIES LOOK FOR?

When deciding whether to buy or lease your next forklift, it's important to understand what finance companies look for from customers interested in leasing. At a high level, here are a few things they will consider:

FINANCIAL SOUNDNESS

Companies with sustained revenue and consistent profitability, along with higher commercial credit scores, tend to qualify for the best terms and financing options.

PORTFOLIO MIX

Business borrowing history is an important risk factor considered by finance companies. Borrowing longevity, high credit experience, along with how much open debt and satisfactorily paid-off term debt, are important factors.

TIME IN BUSINESS

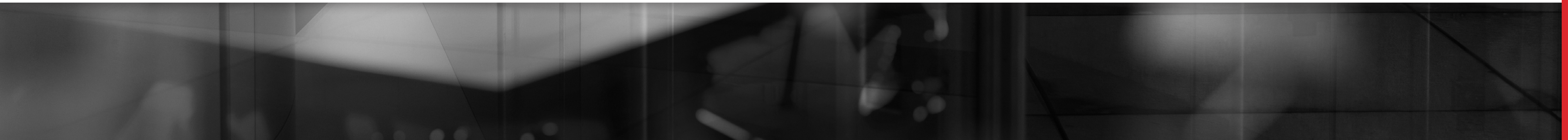
Businesses with longer time in business tend to be viewed more favorably by banks and finance companies.

PAYMENT HISTORY

Businesses with sustained, well paid commercial credit history are viewed positively by banks and finance companies.

DOWN PAYMENT CONSIDERATION

Down payments can reduce the overall cost of ownership, and help businesses with less than stellar payment histories or shorter time in business secure financing.



ARE YOU BUYING FROM A BRAND WITH A CAPTIVE FINANCE COMPANY?

Financing your forklifts with a brand that owns a captive finance company—like Raymond Leasing—could give you a range of benefits you won't get from traditional banks and other lenders. Since they only do business with the brands they represent and have some skin in the game, captive finance companies tend to offer more flexible and creative options, and may be able to offer better terms and easier financing for businesses with damaged credit.

Captive finance companies also offer:

+ Greater commitment to your satisfaction
+ Flexible solutions customized to your needs
+ Better understanding of your business
+ Consolidated billing
+ Partnership throughout the lease term

Leases are not passed to third-party vendors so you can count on:

+ Quicker response times
+ Faster problem resolution
+ Superior customer service

WHAT IS THE CURRENT ECONOMIC CLIMATE?

While economic trends won't entirely dictate purchasing decisions, buying and leasing benefits can certainly be linked to—and impacted by—economic swings.

BENEFITS OF BUYING DURING ECONOMIC UPTURNS

+ Avoid interest payments
+ Keep overall debt ratio down
+ Open additional tax deduction options
+ Establish ownership, allowing field modification options

BENEFITS OF BUYING DURING ECONOMIC DOWNTURNS

+ Pay less up front
+ Benefit from low interest rates
+ Flexibility to adjust the size of your fleet
+ Freedom to change the product mix of your fleet
+ Transition terms after lease expiration

HOW WILL THE ECOMMERCE BOOM IMPACT YOUR BUSINESS?

As consumer demands increase and the supply chain continues to evolve, the material handling equipment you need today may be different from what you'll need three years from now. If you're in an industry that is rapidly evolving, leasing may make sense for a variety of reasons:

+ It gives you the flexibility to adapt without the financial commitment of owning a truck that may no longer serve your needs.
+ It allows you to set a predetermined replacement cycle based on your operation's needs. If you want to remain fluid, or have high-throughput applications that put a lot of wear and tear on trucks, you may want to consider a shorter lease.
+ It lets you evaluate enhanced forklift options and technologies by enabling you to rotate new trucks into your fleet.

THE TRUE IMPACT OF FORKLIFT DOWNTIME AND THE VALUE OF GOOD EQUIPMENT

When a forklift is down for unexpected maintenance, you face more than just unanticipated repair costs. Downtime affects everything from employee utilization to delivery schedules, impacting your business in a wide variety of ways:

LABOR
When your associates aren't working, you're losing money. Plus, if you have to play catch up, you may have to pay overtime.

FIXED COSTS
Even when a truck isn't working, you still have to keep the lights on and pay for other overhead.

PRODUCT
Your product has a cost to consumers and takes time to manufacture. With enough information, you can figure out how much your time is worth, down to the minute. Every minute lost is money lost!

REPUTATION
For warehousing, distribution, and manufacturing operations, keeping customers happy means delivering on time. Failure to do so can impact your relationships and your bottom line.

One of the best ways to avoid forklift downtime—and its associated costs—is to invest in quality equipment. Whether you're leasing, renting, or buying, always remember that the cheapest models may actually cost you more in the long run due to a lack of reliability.

THE BENEFITS OF DIFFERENT FINANCING OPTIONS

HOW TO CHOOSE THE ONE THAT'S RIGHT FOR YOU

CLOSED-END OPERATING LEASE

A standard lease. Customer pays for use of the equipment for a specified period of time while ownership of the asset is retained by the finance company.

Benefits

+ Pay for the time you have use of the equipment rather than the full cost of ownership.
+ High- and low-hour application customization available.
+ Option to extend the lease at the end of the term or to lease new equipment.
+ Avoid the risks and liabilities of owning the equipment.

FINANCE LEASE

(aka Capital Lease, Bargain Lease, or $1 Purchase Option)

Similar to a purchase agreement. Ownership of the asset is provided to the customer and the lease is treated as an interest-bearing loan. Typically, the customer is provided either 1) a purchase option at a nominal or below-market price, or 2) a very minimal residual.

Benefits

+ An alternative to cash and retail installment contracts.
+ Ability to purchase equipment outright at the end of the lease for a nominal amount.
+ Ideal for severe operating conditions because of the ability to lower taxable income by claiming depreciation and interest.
+ Enjoy the rewards of owning the equipment.

FLEXTERM LEASE

Customer leases equipment for a specified period of time initially, with periodic windows (sometimes called "outs") when they have the option to renew or continue the lease at a preset rate, or to return or purchase the equipment prior to the end of the lease.

Benefits

+ Typically offers more savings than a standard lease.
+ Option to extend the lease based on your business needs.
+ Ability to align a specific lease period with your contract commitments.
+ Structure a program that will adjust to anticipated market fluctuations.

MASTER LEASE

Customer leases the equipment they need right now with the ability to add any future acquisition needs to the same lease agreement without needing to enter a new contract and negotiating process.

Benefits

+ Fewer documentation requirements.
+ Covers multiple purchases over an extended period of time.
+ Only one lease agreement is required.

RETAIL INSTALLMENT LOAN

(aka Retail Installment Sale, or Retail Installment Contract)

Customer finances the purchase of their equipment with an agreement to pay the value of the equipment plus interest over a specified period of time.

Benefits

+ An alternative to paying cash.
+ Spreads the cost of the purchase out over a set period of time.
+ Customer maintains full benefits of ownership.

AVOIDING PITFALLS, PROBLEMS, AND SURPRISES

QUESTIONS TO ASK YOUR FINANCE COMPANY

Beyond your interest rate and term, there are a number of other important factors to consider when looking into forklift financing. Knowing what to ask before you sign on the dotted line can help you avoid unpleasant surprises and fees, and help you get a clearer picture of all your potential costs. Make smarter, more informed decisions by asking your Finance Company the following questions:

WHAT ARE THE RETURN CONDITIONS?

+ When do you have to return the equipment?
+ Where do you have to return the equipment?
+ What condition does the equipment need to be in (e.g. how many hours of use, what level of wear-and-tear, etc.) to avoid incurring extra charges?
+ Are there any accessories or accompanying items (e.g. keys, owner's manuals, etc.) that need to be returned with the equipment?

WHAT PAYMENT TERMS ARE AVAILABLE?

+ How should your bills be paid?
+ When should your bills be paid?
+ Is there a grace period?
+ Are there late payment fees?

WHAT ARE THE CONDITIONS OF TERMINATION?

+ Can you end your lease early?
+ What is the termination fee?
+ What other penalties might be incurred for ending a lease early?

WHAT IS THE COST OF TIME?

+ What happens if you go over your hours?
+ What are the charges associated with extra hours?
+ How can you make your lease work for you if you know your business is a low- or high-hour application?

WHAT HAPPENS WHEN THE EQUIPMENT TRANSITIONS OFF LEASE?

+ How much would it cost to purchase the equipment after your lease?
+ If there are charges at the end of your current lease, could you roll them into your next lease?

TIPS & TRICKS

Some financing companies offer proprietary options exclusively to their customers. Be sure to ask about any special offerings from the company you're working with to find the best options available.

OPERATIONS LIKELY TO LEASE, AND WHY

HOW FINANCING MAKES SENSE FOR DIFFERENT BUSINESSES

HIGH-THROUGHPUT OPERATIONS

To help control costs, high-throughput operations often use leasing to procure equipment. The demands of their business lead to high forklift usage and accelerated wear and tear.

By leasing instead of buying, companies can often avoid costly repairs or maintenance fees that come with frequent use by bringing in newly leased equipment at the end of term, allowing them to optimize productivity and keep up with demand.

Could your high-throughput operation benefit from leasing? Answer these questions:

Do you use the forklifts in your fleet more than 12 hours per day?
If so, you might consider the rate of use as a factor in your lease vs. buy decision.

Do your forklifts require unanticipated repairs?
Forklift wear and tear is normal. But if your forklifts require unanticipated repairs and are older than 24 months (a common lease term), you may want to consider a leasing option that would allow you to regularly rotate equipment.

Has your throughput demand increased in the last year?
Increasing throughput can lead to increased usage. If your forklift usage goes up and frequency of repairs does too, you might consider leasing as an alternative, especially if your long-term projections indicate continually increasing demand. A constantly evolving fleet also allows you to leverage new, productivity-enhancing technologies that can help you meet increasing throughput goals.

WAREHOUSING AND DISTRIBUTION OPERATIONS

With their high volume of product handling, warehouses and distribution centers often require a wide variety of equipment, from order pickers to sit-down counterbalanced forklifts, and smaller equipment like electric pallet jacks and walkie stackers.

Leasing can make sense for these large-fleet operations because it can help avoid unplanned repair costs and offer access to the latest technologies.

Could your warehouse or distribution center benefit from leasing? Answer these questions:

Do you have wide variety of equipment that is high-use?
Productivity is vital to the success of any warehousing or distribution operation. To keep your business moving, you need the latest and greatest equipment that is in optimal condition—two of the most common benefits of leasing.

Do you have seasonal swings in demand?
Customers expect warehousing and distribution operations to adapt to seasonal demands, and high forklift usage one year can lead to repair requirements during busy season the following year. Leasing can help mitigate the risk of downtime during seasonal peaks, allowing you to bring in fresh forklifts on a cyclical basis.

Do you work in a highly competitive business landscape?
Leasing can help give you a competitive edge in today's warehousing and distribution industry by delivering cutting-edge, productivity-enhancing equipment to your facility every 24, 36, or 48 months.

TIPS & TRICKS

High-throughput operations can often be made more efficient and cost-efficient through the use of automation. To see if automated technologies are right for your application, or to explore leasing and finance-to-own options, contact your local Raymond Solutions & Support Center.

TIPS & TRICKS

With the boom in electric forklifts over the last decade, some finance companies are making adjustments to residuals to help facilitate electric forklift procurement. Ask about special arrangements to help you electrify your fleet.

LARGE FLEET OPERATIONS

Protecting capital is a primary concern for large fleet operations where equipment acquisition is frequent. Tying up capital in purchased equipment leaves less for investment elsewhere with little chance of recuperating any value when the equipment reaches end of life.

Leasing can help large companies free up capital for other investments, and allows them to maximize their return on investment by only paying for the time they actually use the forklift.

Could an operation of your size benefit from leasing? Answer these questions:

Do you have a large number of forklifts in your fleet?
While "large" may be a relative term, if buying new forklifts outright is detracting from your ability to invest in other areas of your business, it may be time to consider leasing for equipment acquisition.

Do you have multiple forklifts in your fleet that need unplanned repairs at the same time?
For large operations that depend on many forklifts working together, simultaneous unplanned repairs on multiple trucks can seriously impact productivity and profitability.

If your business faces such challenges, leasing may be a viable solution to help avoid downtime.

Do you have several locations but centralized finance operations?
Assessing the useful life and long-term viability of the forklifts your business owns across several locations can be difficult and time-consuming.

Negotiating lease details—including payment terms and return conditions—from one centralized office can help streamline the process and ensure all locations have relatively new forklifts for optimum performance.

TIPS & TRICKS

Lease agreements from forklift manufacturers often come with discounted maintenance plans, giving you access to certified technicians at reduced rates while providing proactive maintenance and repair to keep your business running.

THE HIDDEN IMPACT OF FORKLIFT PURCHASING DECISIONS

EXPLORING THE BENEFITS OF BUYING, LEASING, OR RENTING

IMPACT ON OPERATORS

BENEFITS OF LEASING

Leasing allows your forklifts to be replaced every three to five years, giving operators access to the latest advanced technologies, ergonomics, and productivity-enhancing features.

Since leases include terms related to the number of hours allowed and forklift condition at the end of the lease, operators are held accountable for care of the equipment, potentially reducing downtime and maintenance costs.

BENEFITS OF PURCHASING

Owning a forklift typically means keeping it until the end of its useful life, often 10 years or more. This reduces the frequency operators would need to be trained on an unfamiliar product.

Purchased forklifts can be modified to fit operator preferences and updated with enhanced technologies over time.

Operators often develop an attachment to the forklifts they operate on a daily basis, and this pride of ownership can lead to better care of the equipment.

BENEFITS OF RENTING

Rental forklifts allow operators to stay active and productive when owned or leased trucks experience downtime, acting as effective replacements when necessary.

However, since they are typically built to a standard specification, rental forklifts may not be equipped with the special features or customizations your operators are used to.

IMPACT ON MAINTENANCE PERSONNEL

BENEFITS OF LEASING

The primary advantage of leasing is the reduction in maintenance costs and labor. Customers that lease tend to rely on the equipment dealer to provide service and repair under planned maintenance schedules as part of the lease.

Some customers who lease may still employ a maintenance team or manager for supervision and quick repairs, but having regularly scheduled maintenance and support from the equipment dealer can alleviate much of their workload.

Since leased forklifts are constantly rotating out before they achieve high working hours, less maintenance is typically required, allowing maintenance personnel to focus on optimization and usage rather than constant or unexpected repairs. Also, simultaneously rotating out all your forklifts allows for increased parts commonality—and greater cost efficiencies—across your entire fleet.

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BENEFITS OF RENTING

Dealers typically cover 100% of maintenance costs for rental forklifts, taking the workload off your technicians and allowing them to focus on your owned or leased fleet. This can be particularly helpful when rental forklifts are from different manufacturers, and can lessen the training time required for technicians.

IMPACT ON CUSTOMERS

BENEFITS OF LEASING

Keeping your fleet outfitted with the latest technologies can help improve overall productivity and throughput, enhancing on-time delivery and customer relations.

Reductions in maintenance and downtime can have a similar impact by mitigating the risk of disruption to your operations. Lower overall operational costs, particularly for high-throughput applications like warehousing, can lead to increased price competitiveness.

BENEFITS OF PURCHASING

Depending on your operation and financials, purchasing can provide significant return on investment over the useful life of your fleet. Increased ROI lowers your operational costs, allowing you to pass those savings along to your customer.

Unlike leasing, there are no terms around the length of your ownership of the forklift, meaning you won't incur a penalty for underutilization outside of depreciation. This can also allow cost-effective fleet expansion and provide some flexibility in the event of downtime, minimizing its impact on your deliveries to end customers.

BENEFITS OF RENTING

Rental forklifts represent ideal short-term and long-term solutions to meet peak demand and seasonality changes for your customers. Terms are flexible, allowing you to monitor usage and make adjustments to your fleet on a running basis. While this requires some additional work to constantly monitor fleet size, it allows you to run leaner during slower periods and bolster your fleet during the busy season.

Customers will appreciate your flexibility in meeting their needs and your ability to adjust for quick swings in demand. With rental forklifts, however, the supply can be limited to what is available at your local dealership. Relying on rentals can present some risk if there aren't enough forklifts available to meet your needs.

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Printed in USA
SIPB-1154 626

For more information on new or used forklifts and the financing options available from Raymond, please contact your local Solutions & Support Center.

If you're looking for a partner with the tools and experience to help you run better and manage smarter, contact us today at 1-800-235-7200 or visit us at raymondcorp.com.

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