Chris's Corner: How to pay for new equipment?

If you run a business long term, whether in the food service or the food retailing industry, eventually you will have to purchase new equipment. Whether you need to upgrade your operation, or to replace an existing machine, you will need to buy something.

What typically happens? How will you pay?

It is rare that you can call your dealer, order a machine on the phone, have it delivered and installed and pay them Net 30 days.

Due to the uniqueness, specialization, multitude of options available for the most basic of machines, most equipment is ordered by the dealer from the manufacturer. Most of the time, what you need or want is not a stock item unless you're dealing with a large dealer in a large city.

In some, not all, cases these huge dealerships are cash and carry. You go, you browse, you pay for it and you haul it. Any scenarios beyond that, you pay one way or the other.

Typically when you buy you will be putting money down for the dealer to order for you. Most of time, at the very least, the down payment will be what they would pay in restocking and shipping the machine back to the manufacturer should your deal go south.

Depending on your history and relationship with your dealer as the deal progresses you might have to pay cash on delivery in full. You might pay a portion of the balance and pay the remainder in 30 days.

What if paying the entire amount in 60 days, at most, is beyond your resources? What can you do?

Potentially depending on your banking relationships and situation you might already have a line of credit in place and can draw upon that. Or you can go to the bank and get a loan.

Another option you might not be familiar with is leasing. I am sure everyone has heard of car leasing (which in my opinion is why the cost of cars are what they are).

Equipment leasing is different in one significant way. Most equipment leases are $1.00 buyout leases. At the end of the lease when you have made all your payments the equipment is yours. You don't actually pay $1.00.

All lease payments are expensed and you don't have to depreciate.

Of course the lease contains built in interest and sale tax on top. The shorter the term the lower the interest rate will be.

This is a simple way to pay for equipment within the restrictions of your cash flow.

Most leasing companies that do food equipment leases are pretty aggressive in approving the lease because they're very familiar with the food service and food retailing industries and they maintain ownership of the equipment until the end of the lease. So while these deals are not risk free to the leasing company they weigh everything in when doing these deals and I can count on one hand the number of times over 30 years where I haven't had a deal approved.

So the next time you have to make a major equipment purchase consider leasing. As a matter of fact although you're paying interest on the deal your dealer may actually give you a lower price on the deal because if approved they're guaranteed payment and often time are paid up front.