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Equipment Finance for your business - The Questions You Need to Ask.

This handy guide will walk you through all the questions you need to ask when considering if equipment finance is the right option for your business.

Questions You Need to Ask.

Do I need equipment and do I need it now?

When considering the purchase of equipment for your business it is important to ask yourself:

- Is the equipment essential to the success of my business?
- What would happen if I couldn't purchase it now?
- Is there an alternative or more beneficial asset I should purchase first?
- Is now the best time to purchase the equipment?
- Can I afford to wait for the equipment?

These questions will help identify if you need the equipment and if you can wait until a later date to make the purchase.

WHITEROOM FINANCE PTY LTD

P (08) 6371 8590
E chris@whiteroomfinance.com.au
W whiteroomfinance.com.au

What is your business going to make or save from the purchase of the equipment?

When thinking about purchasing new equipment, you need to ask yourself if it's going to save or make me money? If the answer is no, the equipment is more likely a want not a need and is going to hinder your business finances in the long term. Ask yourself:

- Will purchasing the equipment save me money in the long term?
- How much money will the equipment make my business in the short and long term?

Is the equipment replacing an asset? Is it an additional asset? Is it a new asset?

You might be considering buying something to increase your business capability, to add a service, to reduce cost, or to replace an aged asset that is costing money or opportunity. Each purpose needs different questions to be asked.

Improved capability or additional service: Is this a sustainable new opportunity, or something short lived? Is there really a long-term benefit, or is there a different way of approaching this rather than committing to a new asset purchase? What is the real cost of this purchase on your bottom line?

Reducing cost: How will the new asset reduce costs, and by how much? Will it offset the current cost fully or just reduce it? Will the repayments (or cash cost) have a positive impact on my bottom line? Are there other benefits (or impacts) of buying vs continuing as is?

Replacing an aged asset: Is the old asset costing me money or opportunity, or is it just that I would like a shiny new one? Has the aged asset added value to date, or am I just replacing an old, underutilised asset with a new asset that would also be underutilised? Do I need to replace the old asset with a similar one, or is there something else that would add more value?

The decision to buy is entirely yours and there is nothing wrong with getting a new ute to replace an old one, just because a new one looks better.... But its important to consider the impact on you and your business before making the decision.

How long is the asset going to last?

Technology changes so quickly that equipment can become obsolete in a very short period of time. Being able to predict whether the equipment you want to purchase will need to be replaced in the foreseeable future can aid in the decision-making process. Finance should only ever be aligned to the useful life of the asset and to the level of revenue it will support you to generate.

Do you want to own the equipment, or do you want to lease it?

In simple terms, equipment loans and leases are similar to when you purchase or rent a house. An equipment loan is equivalent to a mortgage. You own the asset from the day you purchase it and borrow the funds using the asset as security, making payments over time until the debt is ended.

A lease is like paying rent. You rent the equipment from someone else and pay them an amount in order to continue leasing it.

What is best for you depends on a number of considerations and is a decision that should be considered with your accountants advice.

Can you afford the equipment now?

When purchasing equipment, it's important to consider whether you will be able to afford it both now, and in the long term. If something is purchased for a short-term gain, you will need to consider whether your business can uphold the cost of the item long-term.

If the cost to purchase the equipment is going to impact your financial targets it may be better to rent for the short term or reassess the purchase altogether.

Can you afford the repayments?

Although the budget can often be tightened in places to allow for essential purchases, consider how a long-term repayment commitment is going to affect your business cash flow. If it can't comfortably fit into your business's current finances, it might be beneficial to reconsider the purchase or find an alternative way to deal with the need.

Consider your business breakeven point and what new revenues you would need to generate to pay for a new debt. Is this realistic? Can you be sure of achieving it? What strategies can you apply to make sure the new commitment is sustainable?

What if you were not able to finance the equipment?

To see how pivotal the equipment might be to your business, consider what would happen if you weren't able to purchase it. If you would lose revenue by not making the purchase, it may be a smart choice to proceed. If the impact is negligible or the purchase will cost you more than you gain, it is worth considering where your cash can be directed for a more positive outcome.

What will it cost you to maintain the equipment?

Maintenance refers to any additional costs you will occur to keep the equipment in working order. When deciding to purchase equipment, factor in if your business can afford to maintain the equipment if something goes wrong.

In some cases, it may be more affordable to on-sell equipment whilst it is still under warranty to avoid maintenance costs and in this instance, your loan term should align to this strategy. In other cases, retaining older equipment because cost of maintenance has less impact on cash flow than a new purchase, may be a sound strategy.

Is the equipment for short term use?

If you only need a piece of equipment for a short-term project an equipment finance loan can become an unnecessary expense once the project has ended, as at this time, the asset would likely sit unused. In this case, equipment for short term projects may be much better acquired via a rental agreement which allows you to exit the agreement once the equipment is no longer needed, or outsourcing to a third party rather than a purchase. There's no one way to address this though, and both short and long term impacts should be considered in every decision.

Is it an internal asset or asset for hire?

Equipment finance can be used to purchase assets for internal use (ie to be used by you in your own business) or for external hire (ie you buy it and lease to someone else for them to use). Be mindful though that if purchasing equipment for external hire, there are added risks to you, and lenders may impose additional security registration requirements (or potentially refuse to fund at all) because of these potential added risks.

The PPSR allows that if your asset is on someone else's site, and they are placed into administration, your asset can be considered to be there's and sold as part of a winding up UNLESS appropriate registrations are placed against your asset by you and by the lender.

Get advice about registering a PMSI or other type of Security Interest to limit this risk . It's extremely important, not only from a finance perspective, but for your own risk management, that the purpose of a purchase is carefully considered and steps taken to address any associated risks.

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Have you considered the risks of borrowing?

Borrowing money in any situation has risk. You are relying on being able to continue to generate enough income in the future to meet repayment obligations – which is never 100% guaranteed. How will you ensure you meet your loan repayment obligations if something goes wrong?

Simply selling the asset is rarely enough. Asset values reduce over time, often more quickly than the loan balance does, especially if you purchase without deposit or if your assets are hard working.

What if your asset is on someone else's site when they go bust and their gates are locked? You can't generate income from an asset that you cant use! How about if your apprentice crashes the ute with all of your supplies in it, or if you crash it and can't work for 6 months?

Purchasing assets, whether funded or not, adds risk to your business. Ensure you are receiving appropriate advice about how to reduce risk, and how to deal with situations that can arise, whether we expect them or not.

Whiteroom Finance is here to help

Without the right equipment behind your business, you may not be able to deliver your service. With the wrong equipment or cash flow structure, the strongest businesses in the country can struggle to be profitable and meet their demand.

Asking the right questions of yourself and your advisers, and considering the short, medium, and long term impact of your decisions will help to make sure your strategy is sound. You'll also be in front of the pack – most businesses react to a perceived need, rather than make a well-considered decision so if you ask the right questions and get the right advice, you're one of the few and have a great advantage.

We're really happy to help. If you require further information, or want to chat about your options, get in touch with the team at Whiteroom Finance. We take the time to understand your business and work with you to find the best funding structure to suit your needs.

To better assist you we need to get to know you and your business so that we can provide accurate strategic advice.

Book an obligation free consultation with Chris White

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Dip.FMBM – Managing Director / Finance Broker

With a history in public sector finance and the finance industry, Chris White knows money.

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