WAYS TO REDUCE THE COSTS OF YOUR EQUIPMENT LEASING PROGRAM

EQUIPMENT LEASING

Developed By:
www.leaseaccelerator.com
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The Challenges of Equipment Leasing

At most companies, the processes, systems and controls for IT, fleet and equipment leases have been neglected, with little investment in programs or people to manage these assets. As a result, many companies have highly inefficient equipment leasing programs that are creating an unnecessary performance drag on the organization.

The good news for companies facing this situation is that there may be an opportunity to realize seven-figure cost savings in the next 12 to 18 months. Case studies have demonstrated that by implementing best practices for Equipment Lease Management, Fortune 500 companies can realize savings of 16 to 18 percent of their equipment lease portfolio costs.

These savings are typically achieved using a combination of two strategies: Equipment Lease Management Software & Leasing Centers of Excellence.
Equipment Lease Management Software

Significant cost savings can be achieved using specialized software to automate the analysis, sourcing, tracking and administration of equipment leases across the enterprise. Just as you have a Real Estate Lease Administration system to manage your office buildings, factories and warehouses, you can deploy an Equipment Lease Management application to manage your leased IT, fleet and other equipment assets.

From the initial Lease versus Buy analysis and equipment financing to end-of-term buyouts or equipment returns, these software applications automate many of the time-consuming, repetitive procedures associated with leasing.
Leasing Centers of Excellence

Additional cost savings can be achieved by centralizing the critical management functions associated with equipment leasing into a Shared Services organization that can support all geographies and business units. A centralized organization clarifies the ownership for the leasing program, enforces best practices and ensures measurement of Key Performance Indicators.

These Centers of Excellence are typically staffed by a team of equipment leasing experts, each with at least 10 years of experience in sourcing and structuring deals; tracking and managing equipment assets; analyzing and processing invoices; and evaluating and negotiating end-of-term deals. In some cases, the Center of Excellence is outsourced to a third party, which provides day-to-day administration of the Equipment Leasing program as a Managed Service.
In this eBook, we will outline 10 Potential Opportunities for Equipment Leasing Cost Savings by leveraging the automation possible with Equipment Lease Management software and the expertise available from Leasing Centers of Excellence.

**01 Lease versus Buy Analysis** - Are you consistently performing Lease versus Buy analysis for new equipment? If not, you may not be making the optimal economic decisions for capital expenditures.

**02 Competitive Financing** - Are you seeking out multiple competitive bids for new equipment leases? Or are you accepting the bundled financing package from the manufacturer’s captive finance arm? If the latter, then you may be leaving significant money on the table.

**03 RFP Management** - Are you spending time developing new RFPs for each competitive financing process? Are you manually comparing, analyzing and ranking lessor proposals? If so, you may be unnecessarily adding weeks onto lease sourcing activities

**04 Lease Negotiation** - Are you negotiating different terms and conditions for each new lease with each lessor? If so, you may be running up tens of thousands of dollars in extra legal fees per year.
10 Savings Opportunities

05 **Interim Rent** - Are you paying interim rent payment on equipment that is delivered before the official start of a lease? If so, you may be significantly increasing the effective interest rates you are paying on financing.

06 **Smaller Transactions** - Are different business units negotiating lots of smaller ticket leases independent of one another? If so, you may be missing out on the opportunity to leverage your buying power.

07 **Evergreen Fees** - Are you paying for unplanned or unwanted evergreen fees for leases that have past the end of term? If so, you may be missing out on millions of hard dollars each year.

08 **Buyouts and Renewals** - Are you negotiating the best possible terms for equipment buyouts & lease renewals? If not, you may be significantly overpaying for purchases & monthly rent.

09 **Asset Moves** - Are you tracking when equipment changes locations during the term of a lease? If not, you may be paying property taxes incorrectly or violating contract terms with lessors and insurers.

10 **Technology Refresh** - Are you refreshing IT equipment and other assets with short product life cycles at the end of term? If not, you are missing out on one of the greatest benefits of equipment leasing.
Equipment Leasing Cost Savings

10 Ways To Reduce The Costs Of Your Equipment Leasing Program
THE 10 SAVINGS OPPORTUNITIES
Leasing equipment, rather than buying it, can offer a number of economic benefits to large companies. Leasing offers improved Free Cash Flow (operating cash flow minus capital expenditures) and budget flexibility. It also reduces technology obsolescence and on-going maintenance costs for equipment. But before any piece of equipment is leased, the treasury organization should conduct a proper Lease versus Buy analysis. To make the optimal financial decision, buyers should compare the Net Present Values for both lease and purchase options along with breakeven analyses; tax deduction summaries; and monthly and annual cash flow analyses.

Unfortunately, most Fortune 500 companies do not consistently execute Lease versus Buy analyses for their equipment portfolios. The corporate treasury organization typically provides a spreadsheet to perform the analysis, which users often store on their computers. Unfortunately, spreadsheets can lead to inaccurate comparisons, as they quickly become outdated.

Variables such as foreign exchange rates and interest rates used in the spreadsheet calculations quickly become outdated as market conditions change.
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Key Success Factors for Lease vs Buy

Best-in-class companies have policies and controls in effect to ensure that Lease versus Buy analyses are performed consistently for their equipment portfolios using the latest market rates and financial variables. Some companies might elect to decide to lease or buy at a category level. For example, all trucks and fleet will be leased, but IT and data center gear will be purchased. Other companies might compare leasing and purchasing options for each individual asset.

Regardless of the approach, a key to successful adoption by stakeholders around the world is making the Lease versus Buy process fast, easy and accurate. Equipment Lease Sourcing software applications typically offer non-intimidating “Asset Request Forms,” which do not require an MBA in finance to use. Users simply submit a few details such as the asset make and model; lease structure and options; desired payment amounts and schedules. The application then automatically performs a Lease versus Buy comparison using current market rates, which are either updated centrally by the treasury organization or automatically retrieved from public websites. The output of the analysis should be archived centrally in case an auditor or accountant needs to revisit the economics behind a particular decision or seeks proof of a Sarbanes-Oxley (SOX) control.
Net Cash Flows After Tax

Lease versus Buy Analysis
The procurement organizations at most large companies use a finely-tuned, systematic, standardized approach to ensure that they obtain the lowest possible “cash” price and contract terms for each new piece of equipment. Techniques such as RFPs, reverse auctions and online marketplaces are used to receive multiple bids from multiple vendors. Competitive dynamics are used to squeeze concessions and negotiate lower pricing from the winning vendor.

However, these procurement strategies and techniques are rarely used for equipment leasing. Many companies obtain financing from a small community of “house banks,” with whom they have credit relationships. Other companies obtain leases from the manufacturer of the equipment, whose captive finance organizations often bundle maintenance and support services along with financing and the equipment. While these approaches may reduce the time-to-lease and the administrative overhead, they do not necessarily lead to the most competitive financing rates or contract terms.

Best-in-class companies separate the equipment selection and the financing of a particular transaction into two sequential sourcing events. Once a particular make, model and “cash” price are decided upon for the equipment, a separate vendor selection process ensues to determine the optimal lease price, terms and vendor. RFPs are issued to a community of lessors, which compete to offer the best financing rates and end-of-term options. In some cases, a new leasing company with no pre-existing relationship is selected. In other cases, the better terms and prices discovered during the bidding process can be used as negotiating leverage with existing “house banks” or vendor captives.
Equipment Lease Management software applications include sourcing features that enable companies to quickly put equipment financing transactions out for competitive bid. Some software vendors have established a network of lessors that have agreed to participate in these online marketplace transactions, and each lessor has submitted detailed profiles about the kinds of deals they like to pursue.

For example, an Equipment Lease Management vendor might have a network of several hundred commercial banks, vendor captives and independent lessors whose profiles indicate their specialization in certain asset types, ticket sizes or geographic regions.

The user interfaces of the application make it easy for lessees to define and distribute their RFPs and for lessors to submit their bids, without losing any of the sophistication in requirements or proposal structuring required for complex transactions.
One of the primary reasons that companies do not competitively bid out more of their leasing business is the amount of time and effort required to run the process. For each equipment financing need, an RFP must be developed. The RFP should outline the make, model and “cash” price of equipment selected; the expected usage conditions; and the primary physical location. Additionally, the RFP might specify the type of lease (TRAC, FMV, Dollar Out) as well as the term, payment frequency and preferred currency.

To realize the benefits of competition, multiple leasing companies will need to bid on the RFP. For most scenarios a minimum of seven lessors should be expected to participate to optimize the outcome. Finding leasing companies to bid can be a time-consuming process. Many leasing companies are selective, bidding only on specific types of equipment assets and ticket sizes. Others are not able to finance transactions in certain geographic regions or countries. As a result, the leasing process may be delayed for several weeks while additional bidders are recruited to participate.

Once RFP responses are received, the proposals must be analyzed and ranked to compare financing rates, contract terms, Present Value or Internal Rate of Return on an apples-to-apples basis. Once a winner is selected, a Master Lease Agreement and lease schedules will need to be negotiated.
Considerable savings can be realized by automating the proposal generation, analysis and ranking process. Equipment Lease Management applications include Sourcing features, workflow and tools that significantly reduce the amount of time and effort required to administer the RFP. Users enter key details about the equipment and the desired leasing structure into a Proposal Wizard that automatically generates an RFP.

The software matches potential leasing companies that would be a good fit for the lease based on variables such as asset type, ticket size and geographic location.

Users can elect to limit RFP distribution to their group of existing lessors, exclude lessors they don't want to involve, or put it out to bid to a broader marketplace of leasing companies.
Negotiating Leases

Many companies lack the in-house leasing expertise to optimally structure and negotiate leases. By default, most leasing companies will structure the lease with terms and conditions that are more favorable to them rather than you, the customer. Overlooking the fine print can lead to numerous logistical and economic challenges, particularly at the end of term. Key contract terms can be spread across a variety of documents, including not only the Master Lease Agreement but also supporting schedules, addenda, exhibits and supplements.

For example, the contract might specify that equipment can be purchased at the end of the lease for a “mutually agreed upon price.” In other words, a price defined by the lessor. Similar challenges might exist with renewal clauses. The lease might include an option to renew, but only for the original rent rather than a re-negotiated rate based on the Fair Market Value of the equipment at end of term.

Other leases might require an unusually long advance notice period of 180 days for renewal, return and buyout decisions. Some might have unreasonable return provisions, such as sending equipment back in the original packaging materials or shipping to remote locations.
One approach to optimally negotiating leases is to establish a Center of Excellence staffed with experienced leasing professionals. These experts will be able to quickly pinpoint the sometimes predatory and often asymmetrical clauses in leasing contracts that cause the biggest headaches. Best-in-class companies will standardize the terms and conditions used with leasing companies. Using a standardized contract puts the customer in control of all the fine print associated with notice periods, return provisions and buyout clauses. To gain buy-in, companies can require that lessors agree to use their standardized contract as a condition of replying to the RFP.

A standardized contract not only reduces the risk of unplanned or excessive buyout, return or renewal costs, but it can also reduce the outside legal bills. Negotiating a unique Master Lease Agreement with each different lessor can become quite costly over time. Leasing companies view this as a barrier to entry to their competitors. Companies can run up expensive legal bills with outside counsel as they repeat the negotiation of key terms and conditions for each new lease.
Interim rent is typically charged for the period between when equipment is received and when the lease officially starts. For example, suppose you negotiate a lease for thirty computer servers—ten for the Chicago office, ten for the Los Angeles office and ten for the New York office. The servers are delivered and installed in the various cities at different times throughout the month of March. However, the lease with the computer manufacturer does not start until April 1st.

In the example above, interim rent would be applied for the period between when the servers arrive and the lease officially commences on April 1st. For a server delivered on March 2nd, almost a full month’s rent (29 days) would be added to the lease. Most companies evaluating financing options do not factor interim rent into their calculations, but these fees can materially impact the economics of the lease.

There are multiple strategies for lowering the impact of interim rent. One strategy is to stipulate contract terms to eliminate interim rent. A second is to cap the amount of interim rent that can be charged in the contract. A third strategy is to treat the interim period as a partial payment. A second partial payment can then be added to the end of the lease, which when combined with the interim rent equates to a full month’s rent. Another creative approach is to restrict the delivery dates of equipment to the end of the month, which effectively minimizes the potential for interim rent.
An Equipment Lease Management application can provide visibility into the amount of interim rent being paid across the business. Armed with this data, procurement managers, category buyers, treasury analysts and local budget holders can more effectively negotiate terms with lessors. Additionally, using a Leasing Center of Excellence to source and structure all new equipment financing deals can enable you to minimize interim rent. Staffed with experienced leasing professionals, these organizations can use the aforementioned strategies and techniques to limit unnecessary fees.
Consolidating Transactions

At many companies, the equipment leasing process is highly decentralized. Each different business unit or geographic region acts independently, identifying equipment needs, selecting a vendor and sourcing capital from leasing companies. A decentralized approach empowers the individual business units with more control over the timing and rates for financing. However, it does not leverage the combined purchasing power of the organization.

For example, suppose during the course of a single year, logistics managers at twenty different plants around the country each independently lease a new forklift for their warehouses at a cost of $50K per forklift. This model creates a lot of administrative overhead. For each of the twenty forklifts, a leasing company must be identified, a leasing agreement must be identified, a purchase order must be created and an initial invoice must be paid. Furthermore, a large number of smaller deals does not leverage the combined purchasing power of the organization. Each forklift is negotiated as a $50K deal rather than aggregated as a $1M transaction.
A better approach would be to establish a Lease Line with a single lessor in that country. You could then draw upon this single Lease Line throughout the year as new forklifts are needed. By consolidating the twenty different $50K transactions into a single $1M Lease Line, better financing rates and end-of-term options could be negotiated. Additionally, there is less administration overhead, as only one lease agreement needs to be negotiated and fewer Purchase Orders and Invoices need to be processed.

Effectively consolidating smaller transactions requires visibility to all the leasing activities occurring across business units and geographic regions. By leveraging a centralized Equipment Lease Management application, companies can gain visibility into their enterprise-wide leasing activities and better forecast future needs. Armed with a holistic view of financing needs, category buyers and procurement managers can identify potential transactions to be consolidated into leased lines. In other words, the “aggregate the buy to drive down the spend” that is used in other procurement categories can be applied to equipment leasing as well. Organizing a Center of Excellence to negotiate all leases can enable more strategic approaches, such as consolidated buying and leased lines.
Consolidate Smaller Transactions

January

February

March

April

May

June

Lease Line
During the course of a 3-year or 5-year lease, equipment might change locations, owners or cost centers. Additionally, an individual piece of equipment might be damaged, lost or stolen. Few companies have the systems and processes in place to track changes to equipment during the term of a lease. Changing the location of a computer, vehicle, forklift or piece of machinery can have cost implications. If these cost implications are unmanaged, they can erode the economics of your leasing program.

Equipment Lease Management software can help you proactively identify mid-term changes that require corrective actions or quick follow-up to minimize unnecessary costs. For example, the software can be configured to require asset owners to attest to the location and health of individual assets on a quarterly or semi-annual basis.

The sooner stakeholders are made aware of mid-term changes to equipment, the faster corrective actions can be taken and notifications can be made. For example, Equipment Lease Management software can be configured to automatically notify corporate tax personnel, accounting groups and lessors of changes to locations, reducing the likelihood of lessor penalties. Additionally, lost or stolen equipment is identified faster, enabling more effective and timely negotiation of buyouts.
Impacts of Asset Moves

Consider the impacts of asset moves for the following three examples:

01. Lost or Stolen Assets

Equipment may be lost or stolen, unbeknownst to the accounts payable team. Lease payments will continue to be made regularly for months, if not years, until someone identifies the issue.

02. Property Taxes

Rates for equipment vary state-to-state & country-to-country. If corporate tax personnel, accounting groups and the lessor are not notified of location changes, you may be over-paying or under-paying taxes.

03. Lessor Contracts

Many leasing companies require notification of changes to the physical location of an asset during the term of the lease, as the changes may impact insurance coverage and costs. In some cases, penalties might be assessed for moving leased equipment without proper notification.
Example - Tracking Asset Moves

**DAY ONE OF LEASE**

- Dallas, TX
- Dallas, TX

**DAY 500 OF LEASE**

- Dallas, TX
- El Paso, TX
Evergreen Fees

Perhaps one of the biggest areas of spend leakage for leased equipment is Evergreen Rents. At the end of a lease, the lessee must make a decision about what to do with the equipment. There are typically four options:

- **Purchase**: The equipment can be purchased, transferring ownership from the leasing company to the lessee.
- **Refreshed**: The equipment can be returned to the leasing company & the equipment refreshed under a new lease.
- **Renewed**: The equipment can be renewed with new rent and contract terms being negotiated with the leasing company.
- **No Action**: The equipment will automatically move into an “evergreen” rent period.

The company continues to make lease payments, typically at the frequency & amount negotiated in the original lease terms. These “evergreen” payments, if unchecked, could continue for months, years -- even decades.
Most companies have at least 20 percent of their equipment leases move into evergreen for an average period of 6 to 12 months. Why? Because the asset owners responsible for renewing the lease, returning the equipment or purchasing the equipment often are not aware that the lease is coming to end of term. In today’s economy, people change roles frequently.

The original asset owner that requested the equipment might be in a different job, if not at a different company, by the end of term.

Equipment Lease Management software tracks all of the critical dates associated with equipment lease contracts in a centralized repository. Workflows can be configured to alert stakeholders when a piece of equipment is coming to end of term. Well in advance of the leasing company’s notification deadline, the asset owners can make a decision about whether to buy, return or renew the leased asset. Some applications will even aid the decision process by analyzing the economics and logistics of each end-of-term option. In situations where a lessor notification deadline is at risk, automated escalation procedures can be configured to notify headquarters personnel of potential risks.

Fortune 1000 case studies have demonstrated that savings of 10 to 12 percent of the annual equipment lease portfolio value can be realized by incrementally eliminating unplanned and undesirable evergreen fees.
Impact of Evergreen Fees

Month 33     Month 34     Month 35     Month 36     Month 37     Month 38     Month 39     Month 40

Original Term Lease Payment     Renegotiated Renewal Lease Payment     Extra Fees Incurred

10 Ways To Reduce The Costs Of Your Equipment Leasing Program
A noteworthy percentage of all leased equipment is purchased at the end of a lease. Some of these purchase transactions are straightforward, particularly when the lease was structured from inception to allow for an end-of-term transfer of ownership. For example, some leases offer Bargain Purchase Options under which the customer can purchase the asset for less than Fair Value. Other finance leases called “Dollar Out” or “Buck Out” leases allow the company to purchase the asset for one dollar.

However, there are some circumstances in which a customer who did not originally intend to purchase equipment at the end of a lease will want to do so. For example, the equipment may have been lost, stolen, damaged or destroyed.

Alternatively, business conditions may have changed, resulting in a decision to acquire the asset rather than return or continue leasing it. These unplanned buyouts can be more complex, as the customer and leasing company will have to agree on a fair price for the asset. Few organizations have the in-house expertise, resources or data to ensure that they are getting the best pricing and terms for unplanned buyouts.

A similar challenge exists with end-of-term renewals. In some cases, options and pricing to extend the lease may have been included in the original contract. However, in other scenarios the renewal may be unexpected by either the customer or the leasing company. With no pre-negotiated terms, some customers simply accept whatever pricing the leasing company offers for a purchase or extension at the end of term. However, such an approach typically leads to unfavorable economics for the customer.
Best-in-class leasing programs capture all the knowledge gained from prior leasing negotiations in order to capitalize on it during future negotiations. Equipment Lease Management applications can record the specifics of buyouts and renewals, making historical data available with a few mouse clicks. The historical transaction data provides a competitive edge in valuation exercises and negotiations. Building a Leasing Center of Excellence is another effective approach for minimizing buyout and renewal costs. Leveraging a team of experienced leasing professionals who have negotiated hundreds, if not thousands, of end-of-term deals is a proven strategy for consistently achieving fair deals.
Technology Refresh

One of the benefits of equipment leasing is the ability to replace an asset with a newer one at the end of term. In categories such as IT and data center equipment, newer models might be three times faster or have twice the capacity of those introduced just a few years before. Refreshing equipment with the latest technology can dramatically improve productivity. For example, a cloud computing company might be able to replace two data center servers with a single one that offers twice the performance. Or a hospital may be able to replace a 5-year old radiology machine with one that performs scans in half the time. A new truck might have 10 percent better fuel efficiency than one manufactured 5 years ago. These productivity and cost savings benefits multiplied across hundreds, if not thousands, of leases can be quite substantial – impacting the effectiveness of your people & the profitability of your financial performance.
Unfortunately, many organizations do not realize the benefits of planned technology refresh because they fail to manage their equipment leases proactively – whether they lease or buy. Companies do not track what assets are coming to the end of term or the end of life. Instead of refreshing a 3-year old or 5-year old piece of equipment with a new model, organizations keep the older equipment for months, if not years, past the end of the lease term.

The company not only continues to make evergreen payments, but also incurs higher operating costs. As the equipment ages, the cost to maintain and repair it increases, creating additional economic drag on the asset. A 5-year old diesel truck requires much more upkeep and repair than a new vehicle. A 3-year old laptop is much more likely to have a hard drive or power supply fail than a new machine.
Equipment Lease Management software can help asset owners proactively track which computers, vehicles and machines are coming to end of term. Notifications can be sent to decision makers well in advance of leasing company deadlines. As a result, asset owners can decide whether they prefer to renew the lease or return the old equipment and replace it with newer technology. Configurable workflows automate the process end-to-end, from alerting the asset owner to notifying accounting and the lessor once a decision has been made.
SUMMARY

10 WAYS TO REDUCE THE COSTS OF YOUR EQUIPMENT LEASING PROGRAM
Lease versus Buy Analysis

Ensure you are making the optimal economic decisions for capital expenditures by consistently performing lease versus buy analysis. Use Equipment Lease Sourcing software to standardize your lease versus buy analysis with a user-friendly tool.

RFP Management

Send out RFPs for new equipment financing opportunities specifying the lease structure, payment frequency, currency and other financial goals you are seeking. Use Equipment Lease Sourcing software to automate the proposal generation, ranking and analysis process.

Interim Rent

Pay close attention to the interim rent clauses inserted into your equipment leases. Arm your procurement managers and category buyers with techniques to minimize interim rent clauses in your equipment leasing contracts.

Competitive Financing

Put new equipment finance opportunities up for bid with your existing community of lessors and other competitors in a leasing marketplace. Use Equipment Lease Sourcing software with a pre-established network of commercial banks, vendor captives and independent leasing companies to optimize the outcome.

Contract Negotiation

Avoid negotiating different terms and conditions with each different leasing company. Use Equipment Lease Sourcing software to standardize your Master Lease Agreement contracts with your lessor community.
SUMMARY

**Smaller Transactions**
Limit the number of smaller ticket leases being negotiated independently by various business units around the world. Leverage your buying power by consolidating smaller transactions into lease lines to reduce administrative and financing costs.

**Buyouts and Renewals**
Ensure you are obtaining the optimal economics from your end-of-term buyouts and renewals of equipment. Train your procurement managers and category buyers in specialized techniques to for lease buyout and renewal contracts.

**Evergreen Fees**
Minimize the dollar value of unplanned and unwanted evergreen fees being paid for equipment leases past the end of term. Instituting reporting processes and KPIs to track equipment coming to end-of-term and assets in evergreen status.

**Asset Moves**
Minimize risks associated with making incorrect property taxes or violating insurance and leasing contract agreements by tracking leased equipment asset moves. Institute a periodic attestation process to verify the existence and location of leased assets.

**Technology Refresh**
Strive to refresh IT equipment and other assets with short product life cycles at the end of term. Institute automated workflows to notify decision makers of upcoming end-of-term deadlines.
LeaseAccelerator offers the market-leading SaaS solution for Enterprise Lease Accounting, enabling compliance with current and new FASB and IFRS standards. Using LeaseAccelerator’s proprietary asset-based Global Lease Accounting Engine, customers can account for all categories of leases including real estate, fleet, IT, material handling and other equipment at an asset-level.

On average, LeaseAccelerator’s lease Sourcing and Management applications generate savings of 17% on equipment leasing costs with smarter procurement and end-of-term management.