

Helping Businesses Make Smarter Decisions in Unprecedented Times

By: Brian Scott

It's the cost of doing business. That is the longstanding mindset many corporate leaders and business owners fall into when making the choice to invest in the vital resources needed to keep their companies generating revenue. While their sentiment about upgrading tools and technologies may shift during times of uncertainty, pausing decisions to upgrade or implement new equipment may ultimately put them behind the 8-ball in terms of future costs or playing catch-up against competitors who stayed the course.

From manufacturing and healthcare to hospitality and transportation, the cost of equipment and specialized tools can run into the hundreds of thousands, if not hundreds of millions of dollars. In these challenging times, it's critical for businesses to evaluate the right equipment needed to optimize both their finances and capabilities. Factor in that technology is evolving faster than the speed of light – especially in the healthcare field – and a piece of equipment currently being made may be obsolete by the time it is received and installed.

Those who are faced with the cost of purchasing new equipment either to enhance their product offerings or replace equipment that is nearing the end of its life cycle face enormous burdens even in the best of times. The two most considerable burdens begin with dedicating a significant amount of revenue – revenue that could be reinvested into boosting hiring, fueling research and development or broadening service or product distribution footprints – to updating equipment. And second, the challenge associated with understanding exactly what equipment is needed to make the most financially and operationally sound decision.

In the equipment finance industry, many times, the result is taking the path of least resistance without fully thinking through purchasing decisions, which is a risky course of action for many businesses. Consider a hospital that may need new imaging equipment - taking on a 25-year, low-rate loan on a \$100-million piece of equipment can be tempting - but as technology changes, after a few years, that imaging machine may be outdated. Not worth the price tag they initially paid, organizations remain saddled with obsolete equipment that cannot be resold and 20 more years of loan payments.

Decades of experience point to the fact that in this environment of elevated apprehension, equipment finance resources are invaluable tools for navigating the often-complex world of investing in high-priced, yet vital equipment and tools, especially in uncertain times.

Lessons from the Field: Balancing Critical Needs with Economic Realities

Despite drastic changes in the way business is being conducted and the number of resources that can realistically be deployed, aging equipment does not wait while organizations catch up financially or operationally. Not recognizing a delay can severely compromise a business' profitability, so tapping an experienced, knowledgeable and nimble equipment finance team can put in place smart, right-sized customized financing options, while helping a company gain and maintain a competitive edge:

1. Accurately Evaluate Needs Against Best-Investment Opportunities

Too often, the lure of innovative equipment and cutting-edge technology can financially hinder businesses looking to add new machinery to boost their operations. While a piece of equipment that produces 10,000 widgets per minute may seem like the perfect efficiency-boosting solution, its price tag likely will not be justified for a manufacturer who sells 500,000 widgets per year. The same goes for evaluating the many capabilities of machinery that, while attractive, may not be of much, if any, use. A skilled equipment finance team can provide greater clarity when evaluating options, offer

deep industry knowledge of current technologies and view all available solutions through an unbiased lens. The ultimate goal is to be a good steward of customers' financial and operational assets.

2. Build Smart, Flexible Financing Options

Upgrading equipment can be a significant risk at any time in the economic cycle given the many factors affecting a business' operations. Whether seasonality, purchasing trends or economic conditions, it's crucial to assess the wisest investments a company can make, and then build a sensible financing plan that takes into consideration cash flow, production schedules and realistic earnings projections, and one that can better weather additional unanticipated volatility. When backed by a nimble business-minded bank, an equipment finance group can often leverage untapped resources, including financing options within other areas of the bank, government initiatives that provide tax-free or low rate investment incentives and even relationships with original equipment manufacturers (OEMs) and their captive sources.

3. Take on Risk *with* Customers

In some cases, general lenders can often be especially critical of industries or equipment they may not understand. Western Alliance Bank's Equipment Finance Group has embraced the bank's customer-focused approach to doing business, which provides understanding and expertise of a client's industry, business and specific needs at the epicenter of the relationship. Taking time to understand operations and environments, and deeply believing in the continued success of its clients, as well as the long-term value of the equipment they are investing in, drives the group's willingness to take on risk *with* customers, as opposed to leaving them to navigate it alone. By understanding the value and potential re-sale, in addition to unique operating factors such as seasonality, banks can design customized payment structures to better benefit companies, which makes sharing the risk an appealing option to many businesses. As well, banks can negotiate specific terms with OEMs to potentially delay or space out payments during equipment installation processes or while functionality is being assessed on site.

Similarly, while taking on risk is one benefit of having a seasoned equipment leasing team on a business' side, another is its role as protector from equipment obsolescence. By working closely with an equipment finance group, the C-Suite has added peace of mind that their banking team will work in their best interest to protect their cash flow and assets from becoming outdated too soon.

For companies purchasing new equipment, having a knowledgeable, seasoned team on their side becomes a practical and smart-money solution to helping chart a course toward greater business success and provide the edge in highly competitive marketplaces, especially as the business world navigates these unprecedented times.

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