LEASING VS. BUYING BUSINESS COPIERS

What every Business Owner should know before they consider leasing or buying a business copier…

Produced by

Common Sense Business Solutions

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Leasing vs. Buying Business Copiers

What Every Business Owner Should Know

1. HIGHLIGHTING THE BENEFITS OF PURCHASING VERSUS LEASING A BUSINESS COPY MACHINE

A question we're frequently asked is whether it makes more sense to purchase a business copier or lease a business copier. And, as you can imagine, the answer to this question should always be based on the specific circumstances and preferences of a given individual or company. Therefore, the purpose of this guide is to illuminate some of the distinctions between the two options and to raise some points of consideration for each individual or company to weigh.

So, let's start by exploring some of the relative benefits of both purchasing and leasing.

i. Benefits of Leasing Business Copiers

- **No out of pocket expense**

  When leasing a copier there is generally no down payment or any form of out of pocket expense which helps to preserve a company's cash flow. In almost all cases lease agreements require no down payment and usually not even a first payment in advance. A customer simply agrees to a stream of payments that will begin several weeks after the installation of the machine.

- **Easier to keep up with competitors**

Leasing can enable your small business to acquire sophisticated technology, such as a fast, feature rich Multifunction Printer (MFP) with a host of productivity enhancing accessories that might be otherwise unaffordable. The result: You're better able to keep up with your larger competitors without draining your financial resources.

- **No Depreciation Schedule**

When leasing a copier there's no need to monitor the depreciation cost over a five year period which makes the administrative aspect of tax planning more streamlined. When you purchase a copier you can deduct the depreciation of the hardware. However, in most cases when leasing a copier, you can deduct all of the payments because it is considered a pre-tax business expense.

- **Copier servicing**

Whether you choose to purchase or lease, your options regarding maintenance agreements are the same. Regardless of whether purchasing or leasing you can set up an all-inclusive maintenance agreement that will cover any and all service, parts and supplies needed to maintain the copier. In summary you will have the same service/ maintenance options whether you lease or purchase so this aspect does not need to enter into your decision of whether you choose to purchase or lease.

- **Consistent operating expense**

  When leasing a copier you have the benefit of a consistent operating expense that remains the same over the entire lease term making for easy and accurate budget forecasts.

ii. Benefits of Purchasing Business Copiers

- **No monthly payment**

  When you purchase a copier outright one of the benefits is that you have one less monthly invoice and monthly payment to process. When leasing a copier you will have to process and pay a monthly lease invoice each month.

- **No Finance Charges or Interest**

  When purchasing a copier you don't have to pay the additional finance charges that are required when you lease the copier.

- **Tax Benefits**

  In many circumstances a company can write off the entire purchase cost of a business copier in the year that it was purchased without having to depreciate it over the five-year depreciation schedule. Please consult with your CPA or tax professional regarding the viability of this option for your specific company.

- **Eliminate the cost of shipping the copier back to the lease company at the end of the lease**

  Many companies are unaware that at the end of the lease term they are responsible to pay for the shipment of the copier back to the lease company that routinely can cost $400.00 to $800.00 or more. When purchasing a copier, of course, you eliminate that recurring cost. (Further in this guide you will find details on the requirement to

Copier Servicing

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ship back copiers at the end of a lease term. This is an important consideration when considering whether a lease or purchase is the right choice for you.)

- **Retain the value of the asset**

  When you purchase the copier you own it for the entire useful life of the equipment. When leasing a copier, however, you will typically upgrade to a new copier at the end of the lease term. Not only do you lose the value of the copier, but – as noted previously - you have to pay to ship it back to the lease company.

- **Flexibility to make changes**

  Many experts suggest that leasing provides you with the flexibility to easily upgrade to a newer or higher-end machine. These same experts suggest that this is not an option when purchasing a copier. The opposite is actually true. When you own a copier you have the flexibility to trade in your existing copier and use the trade-in value to offset the cost of a new machine. When leasing, however, there is always a significant penalty for early buyout or early termination. In addition, upgrading to a new or different machine prior to the scheduled end of the lease term means you have to satisfy the buyout first.

- **Extend the useful life of your copier after your initial purchase**

  When purchasing a copier you can continue to use the copier as it is functioning and meets your needs. Many companies use purchased copiers for seven to eight years or longer. Most copier leases, on the other hand, are for either 36 or 60 months. In the vast majority of cases companies simply roll from one lease to the next lease. Consequently, they are always paying the full cost plus finance charges for a new copier every three or five years.

When comparing the benefits and downsides of either purchasing or leasing a copier, the single biggest factor is often cash flow. Will your company benefit more by retaining its current cash flow by choosing a "zero out-of-pocket lease", or would you benefit more by purchasing the copier and avoiding the finance charges and the burden of one more monthly payment to manage each month?

2. WHAT TO LOOK FOR IN A GOOD COPIER LEASE

In every small business office, printers and copiers are virtually standard equipment. A stand-alone business copy machine is a regular fixture and probably one of the most frequently used machines. But copiers wear out or no longer meet the growing demands of a business and must be replaced. So, again the question: Do you buy one outright, or opt for a lease?

All things considered, most small businesses would be hard-pressed to purchase a new copier. Retaining the valuable commodity of cash on hand is the primary reason that nearly 75% of commercial business copiers are leased.

i. Factors to Consider In a Copier Lease for Your Business

You may already have a specific brand or model in mind as you make your purchase decision. Before you commit to a particular copy machine, however, you and your company will benefit by conducting a brief "cost and benefit analysis." The following seven functionalities of small business copy machines are key deciding factors for making the right choice.

- **The type of lease**

  There are essentially two options available when leasing copiers: A $1.00 buyout option lease also known as a capital lease or a Fair Market Value lease also known as an operating lease.

  A capital lease with a $1.00 buyout option is treated much like a loan with the equipment accounted as an asset on your balance sheet. This means that you benefit from tax depreciation and other similar benefits. One of the downsides of this type of lease is the time length of the contract – sometimes up to five years. You could find yourself still paying for an out-of-date machine long before your contract ends.

Operating leases with a Fair Market Value Buyout are far more common with small businesses. One advantage is that they offer a lower monthly payment than a capital lease and are often shorter term leases of three years or less. With this type of arrangement, the lease company/bank (lessor) maintains ownership of the machine. For the company leasing the equipment (the lessee), it is considered a monthly operating expense and not a depreciable asset.

- **The type of buyout option**

This can be somewhat confusing for business owners who want to lease and are considering an option to buy the copier eventually. Typically, the choice is either a fair market value (FMV option) or a $1 buyout option.

Fair market value (FMV) simply means that the equipment can be purchased at the end of the lease for the established fair market value. That amount could be hundreds of dollars or more but as a rule of thumb the fair market value of a machine at the end of the lease will equate to somewhere between 10% - 15% of the original principal value of the machine. Your copier account representative should be able to tell you the principal value of the machine prior to signing a lease agreement.

The $1 buyout option essentially means that the copier can be purchased for one dollar at the end of the lease. To most, this would appear to be the preferred option. However, be aware that the monthly payments on FMV leases are approximately 15% lower than those with a $1.00 buyout option. Since the majority of companies will want to upgrade to a new machine when the existing lease term ends in most cases it make sense to opt for a FMV lease so the monthly payment is as low as possible. In

the event you do want to purchase the copier at the end of a FMV lease you will likely be able to buyout the lease for an amount that is less than the added 15% cost you would have incurred during the life of the more expensive $1.00 buyout lease.

- **The number of years on the lease**

The preferred lease term is based strictly on each individual company's specific circumstances. All copier leases can be set up for 24, 36, 48 or 60 months based on a customer's preference. As with most equipment leases, or loans, the longer the monthly term, the lower the monthly payments. Because the monthly lease payment is going to lower the longer the term, in most cases it makes sense to choose the longest term in which the service provider will guaranty the serviceability of the given machine.

- **Flexibility for upgrading**

Keep in mind the growing needs of your business. While you may only need a limited number of features and a machine with modest capacities today, if your business grows substantially, your copier needs may well grow accordingly. While it is often possible to transfer your existing lease agreement to a larger machine, in most cases you will pay a premium to upgrade before the scheduled end of the term. Therefore if you have legitimate reason to think your needs will change you will want to consider the length of the lease term accordingly.

3. LEASING A BUSINESS COPIER? BEWARE OF THE FINE PRINT…

Copier leases are amongst the simplest yet most misunderstood financial documents ever written. Buried amidst the single page of fine print representing the terms and conditions of a copier lease agreement is several landmines waiting to explode on unsuspecting lessees. In having provided Konica Minolta copiers for the past 28 years, I have literally seen hundreds of companies blindsided by the conditions contained amongst the fine print. Most notably;

i. Leasing Terms and Conditions for Business Copiers

ii. Copier equipment leases are always non-cancellable. While it is not anyone's initial intent, the need to terminate a lease can be triggered by any number of events. You may find you no longer need the equipment, or that you need to upgrade much sooner than you anticipated. Equipment leases are always non-cancellable so you want to be sure that you choose a lease term that is consistent with your projected needs. In the event that you do need to terminate a lease agreement prior to the scheduled end of term be advised that you will be responsible for fulfilling the entire stream of scheduled payments and returning the equipment to the lease company per the conditions of the lease agreement. Should you wish to upgrade to a newer machine, most lease companies will work with you to facilitate a "trade up" from an existing lease to a newer lease but be aware that you will be asked to sign a new, full term agreement. Your copier account representative can share more information on how a mid-term trade up is facilitated.

Copier lease agreements do not automatically end once the initial lease term is completed. Every copier lease agreement contains a condition that states that the lessee is required to provide written notice to the lease company within a small, pre-determined window of time outlining the lessee's intent to renew or terminate the lease agreement. The absence of this written notification will result in an automatic renewal term of up to 12 months of

additional payments. In 28 years I have never seen a lessee successfully negotiate having this condition waived or forgiven.

Generally you will find language in the second paragraph of the copier lease terms that states something to the effect of "lessee must provide written notice of their intent to renew which must be received no sooner than 180 days and no later than 90 days from the scheduled end of the original lease term. Failure to send this notice will result in a renewal of the copier lease for 12 months beyond the originally scheduled lease term. The renewal period can vary from 1 to 12 months depending on the lease company." The renewal period is non-negotiable and carries the same terms and conditions as the original terms including the need to send a letter to the lease company prior to the new maturity date.

If the letter is not sent and received during the small window of time leading up to the conclusion of the new extended term than the lease will automatically renew for an additional period of time consistent with the initial terms and conditions. In summary; Copier lease agreements don't end on their own initiative. The lessee must provide written notice to the lease company instructing that the lessee does not want the copier lease to renew. Worthy of note is that this letter is not to be sent to your local copier service provider that delivered and services your copier. Instead this letter must be sent to the lease company to whom you make your monthly lease payment.

iii. What are the Options at the End of the Lease Term?

Copier leases do not result in automatic ownership at the scheduled end of the lease term. Even upon completion of the scheduled term of payments the lessee does not own the asset once the final payment has been made. All leases require a buyout cost over and above the agreed upon stream of payments in the event that the lessee wishes to

own the equipment at the successful completion of monthly payments. The overwhelming majority of copier lease agreements are based on a Fair Market Value or FMV buyout option. This option states that the lessee has the option at their discretion to exercise any of the following options based on the lessee's timely written instructions; the available options are to purchase the equipment, renew the existing agreement, or terminate the agreement. The lessee can choose the option based on their discretion.

- **Purchase Option**

  The lessee has the option to purchase the copier at the Fair Market Value which is determined by the lease company based on market value at the time the purchase option is exercised. Note that even though the lease company ultimately dictates the buyout price the lessee can frequently negotiate a more competitive price with the realization that the copier holds virtually no true value to the lease company at the scheduled end of term. The leverage exists in favor of the lessee when determining the market value and the lessee would always be well advised not to accept the lease company's first offer as to the copier's value.

- **Terminate Option**

  The lessee has the option to terminate the existing lease agreement at the scheduled maturity date so long as the lessee has provided the lease company with timely written instructions indicating this option. Note that the written instruction must be sent during the small wind of time outlined in the terms and conditions. This window is generally somewhere between 30 and 90 days prior to the maturity date of the original term. A significant point of note is that when the termination option is exercised it is the lessee's obligation to have the copier shipped to the destination of the lease company's choice. This destination can be anywhere in the United States. Shipping costs can frequently run from $400.00 to $800.00 depending on the size of the copier and the ship to destination. See more specifics on the lessee's shipping obligations further on in this blog.

- **Renewal Option**

The lessee has the option to renew the existing lease agreement for the same payment as is provided during the initial term of the lease. Should the lessee opt to renew the agreement there is no action to be taken as the existing lease conditions dictate this renewal in lieu of written notification instructing otherwise.

iv. Leasing Business Copiers Incurs Additional Costs

- **Copier lease agreements require lessee to pay shipping costs to return the equipment**

In the event that the lessee chooses to terminate the lease agreement the lessee will be required to arrange and pay for shipping the copier to the destination of the lease company's choice anywhere in the United States. Shipping a copier can be extremely expensive especially if the destination is out of state. Lease companies provide a list of preferred shipping companies, who will usually charge a premium rate to handle the shipping on the lessee's behalf.

Often, however, the lessee can make their own shipping arrangements at a cost significantly lower than that charged by the lease company's preferred vendors. And if the lessee has arranged to lease or purchase a new copier, the lessee can often negotiate to have the vendor of the new equipment take on the shipping costs as an incentive to selling the new copier

- **Copier lease agreements require you to add the lease company to your existing insurance policy**

When leasing a copier the lessee is required to add the lease company as the sole loss payee for the value of the copier. Otherwise, the lessee will instead be charged an insurance surcharge that is generally 6-8% of the monthly lease payment.

In most cases the lessee's insurance agent will mail the certificate directly to the lease company on behalf of the lessee. The potential issue is that many lessee's either don't have business insurance, or are not aware that they are required to provide their own insurance, and often end of paying a significant monthly insurance surcharge without it ever coming to their attention.

- **Copier lease agreements have a clause that states the lessee will be charged a lease initiation fee for the setup of the lease agreement**

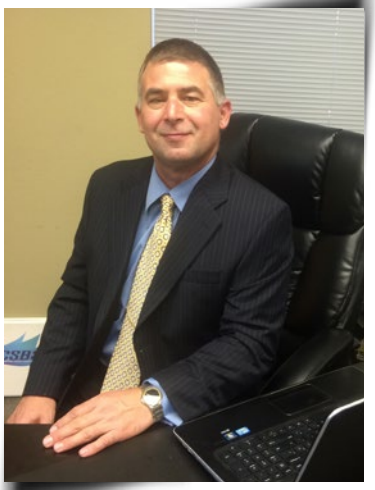
The lease initiation fee is a one-time, non-negotiable charge that will be itemized separately on the first monthly lease statement. Generally the lease initiation fee will range from $70.00 to $135.00. Many lessees are caught off guard when they see this charge on their initial invoice.

4. SUMMARY

In summary, none of the terms and conditions in a lease agreement are excessive or unfair. However, it is always in your best interests to have a clear understanding of your obligations prior to entering into a copier lease agreement should you ultimately choose to lease a copier instead of purchasing one.

A business copy machine is a significant investment. Therefore, careful consideration right from the beginning is very important, and the purchase or lease of a new copier should be seen as a strategic operational decision.

5. ABOUT THE AUTHOR



Ross Wiffler is the President and Founder of Common Sense Business Solutions and has invested the past 28 years helping hundreds of Sonoma County businesses with their copier and printer needs. Ross has a passion for working with local businesses and strongly believes that supporting other local businesses benefits the entire community. Under Ross' leadership Common Sense Business Solutions is actively involved in the community donating equipment and support to various nonprofit agencies and serving as an active member of Sonoma County Go Local Cooperative, Santa Rosa Chamber of Commerce and the Next Level chapter of BNI (Business Networking International).

Ross is a lifetime resident of Santa Rosa and truly enjoys living in Sonoma County, the greatest place on earth to live and raise a family. Ross is an avid backpacker, hiker and outdoor enthusiast and is committed to embracing and supporting environmentally friendly personal and business practices. Common Sense Business Solutions offers companies complimentary reviews that provide easy to implement ideas to help reduce the impact on our environment. Ross has a mission statement that centers on creating a business that is an active participant in the well-being of Sonoma County and the surrounding areas. By creating jobs in the local workforce and promoting community orientated organizations, together we can make a difference.

6. ABOUT COMMON SENSE BUSINESS SOLUTIONS

Common Sense Business Solutions embodies small business. Both of the principals in CSBS were born and raised in Sonoma County and have a strong desire to play active roles in their community:

- Ross Wiffler was born and raised in Santa Rosa and has been a local business leader for the past 30 years.
- Rita Constantini was born and raised in Cotati and her commitment to serve is strongly influenced by her service in the United States Army. Rita is an Iraqi Veteran where she served as a Black Hawk Squadron Leader. Rita has also recently embraced a new role as a certified Sonoma County Law Enforcement Chaplain.

Common Sense Business Solutions cares for its environment and believes that we owe more than just lip service in doing our part to preserve it. CSBS shares common sense ideas that help its business partners lower energy costs, save paper, reduce packaging waste and better utilize resources from an environmental perspective. CSBS provides these helpful solutions to all companies, whether they are a customer of or not because together we can make a difference. In the vast majority of cases CSBS is able to share ideas that helps to lower any company's carbon footprint while simultaneously providing immediate savings.