



LEASING

IT'S MORE PROFITABLE THAN YOU THINK.

by Ken Paston

Leasing moves the American economy. More than 35% of cars, 30% of computers, and 40% of copiers and office equipment are sold through leasing. Virtually all of the Fortune 1000 lease products.

Many large corporations with cash on hand routinely lease technology products and systems. One reason is that the person desiring the equipment may not have the budget or authority to make a large purchase without having it approved by a committee or referring it to headquarters. With leasing, this buyer can convert the large purchase to a small monthly expenditure, which falls within their department's approved operating budget.

Another benefit of leasing is that it eliminates obsolescence. When the lease is up, the customer can simply return the equipment to the leasing company. That not only prevents them from getting stuck with outdated technology, but also creates an opportunity for a follow-up sale by you.

Leasing Eliminates Sticker Shock

A big advantage of leasing is the ability to sell the customer all the equipment and services they need for a fixed monthly payment that fits their budget. You can select terms and vary commission rates to come up with a lease payment that is acceptable to your

customer, enabling you to close the sale.

The small monthly payment helps overcome price resistance and sticker shock. After all, which sounds better "\$10,000" or "\$217 a month"? In addition, leasing allows customers who do not have the cash or do not want to exhaust bank accounts or existing credit lines to buy what you are selling.

"My standard price quote always includes monthly lease payments," says one computer reseller in Massachusetts. "This gives prospects an option which makes our system look less expensive. If the prospect did not have that low number to consider, the high purchase price might have blown them away right off the bat."

This reseller adds: "It's a nice selling point when you are talking to somebody and they start checking on a 15 grand price to say, 'We'll just do the lease for \$325 a month.' It tends to get them out of that price shock mind set."

Leasing is Quick and Easy

The leasing company will require some basic information about your customer. Most leasing companies have a form for this purpose. Some computer and technology leasing companies offer resellers the convenience of applying for leases by phone. The

leasing company handles all the paperwork from that point.

The leasing company receives the credit information and analyzes your customer's credit worthiness. Some leasing companies make fast credit decisions and are not afraid to take credit risks. Upon credit approval and signing of the lease by your customer, the leasing company will provide you with a purchase order. After delivery of the equipment and acceptance by your customer, the leasing company pays your invoice (plus any lease commission and bonus due you).

"I would rather do a lease because we make more money and I don't have to worry about the customer's credit rating," says one California software reseller. And a reseller in New York adds: "I like leasing because I get a check right away. I don't have to worry about getting paid or waiting 30, 60, or 90 days for my money."

Leasing Can Increase Your Profit Margin

Some leasing companies that specialize in serving resellers offer cash incentives designed to boost profit margins as an incentive to use their services for the transaction. The two most popular cash incentives are leasing commissions and cash bonuses.

The leasing commission is an extra payment to the reseller based on a percentage, typically ranging from 1 to 5 percent, of the total amount of the lease. A bonus, by comparison, is a flat additional fee paid per transaction. Commissions and bonuses can increase reseller profit margins substantially. For example, on a \$25,000 lease, the reseller could choose to receive a 5 percent commission — \$1,250 — plus a \$400 bonus, for an additional profit of \$1,650 on the sale. The leasing company would send the reseller a check for \$26,650 (\$25,000 plus \$1,250 plus \$400). Some leasing companies also offer incentive gift programs.

Leasing Can Cover Soft Costs

Many leases can include delivery, installation, maintenance, support, training, consulting, software, programming, conversion, Year 2000 recoding, extended warranty agreements, and other soft costs. It is even possible to write a 100% software (no hardware) lease for your customers at standard rates.

"A leasing arrangement will include a lot of services and supplies that other types of financing won't allow," accountant Tom

Kline said in an interview with *Computing and Communication* magazine (November 1997). "You can finance 100 percent of the purchase of what you need."

Governmental Leases

Many state and local government agencies such as school districts, police and fire departments, state and municipal hospitals, libraries, and courts would rather lease than purchase.

To help resellers serve this market some leasing companies offer specialized government leasing programs that meet the unique requirements of state and local agencies. Such leases typically contain an escape clause that allows the agency to cancel the lease if funds are not appropriated.

Leasing: The Alternative Financing

A question often raised by resellers is, "How can I finance the purchase, from my supplier, of the equipment that will be leased to my customer?"

Some leasing companies offer "direct pay" programs: The leasing company issues a

purchase order to your supplier; you authorize the leasing company to pay the supplier directly. Your supplier will be making a decision based on the credit strength of the leasing company, not your own credit rating. The leasing company then pays your supplier directly. You are out of the loop; there is no need for you to pay the supplier or to tie up your credit line with your supplier or bank.

Considering the advantages to the customer (cash flow, capital budgeting, taxes, obsolescence, customized payment schedules, etc.) it is no wonder most companies lease. The advantages to the reseller/VAR are also just as great: speed up cash flow, ability to close the sale, sell more product, increase profit margins, and provide alternative financing. With the ease of leasing and its profit potential, leasing truly is a viable alternative financing vehicle.

About the author:

Ken Paston is president of Studebaker-Worthington Leasing Corp., a leasing company specializing in computer and technology leasing. ■



WHAT FINANCIAL EDGE DO OVER 10,000 RESELLERS NATIONWIDE HAVE THAT THEIR COMPETITORS LACK?

They offer their customers financing through Studebaker-Worthington... the nationwide leader in computer and technology leasing for resellers.

For over 25 years, Studebaker-Worthington has helped thousands of resellers nationwide increase sales and profits through affordable financing — of transactions ranging from \$1,000 to \$100,000 and more.

Flexible terms, competitive rates, generous leasing commissions, big cash bonuses, fast credit approval, and paperwork-free lease applications are the hallmarks of our service.

These and other Studebaker innovations — coverage for all soft costs, 100% software (no hardware) leases, special leasing programs, and free gifts and sales training — make it easier and more profitable than ever to offer leasing to your customers. So you can sell them more, more often.

To get started, or for more information, call Studebaker-Worthington toll-free 800-645-7242 and ask to speak to an Account Executive. We're here to help you from 9 am to 8 pm EST — 6 am to 5 pm Pacific Time.

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