

# Managing your Acquisitions & Equipment Fleet

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What's up with Mr. Buttersworth?

He just read his end of lease options.



ADMINISTRATION

EQUIPMENT  
LEASE  
DOCUMENT

Mr. Buttersworth



# Why should we be concerned about making acquisitions a "STRATEGY"

Main Entry: strat·e·gy

Function: *noun*

Inflected Form(s): *plural* strat·e·gies

Etymology: Greek **stratēgia** generalship, from **stratēgos**

Date: 1810

1 a (1): the science and art of employing the political, economic, psychological, and military forces of a nation or group of nations to afford the maximum support to adopted policies in peace or war (2): the science and art of military command exercised to meet the enemy in combat under advantageous conditions b: a variety of or instance of the use of strategy

2 a: a careful plan or method : a clever strategy b: the art of devising or employing plans or strategies toward a goal

3: an adaptation or complex of adaptations (as of behavior, metabolism, or structure) that serves or appears to serve an important function in achieving evolutionary success <foraging *strategies* of insects>

During this class, you will learn how to:

- Understand the options for payment: cash, lease, rental or installment loan
- Build an acquisition plan and how it will help pay for needed equipment.
- Develop the true cost of ownership.



# Big Ideas

- When it's time for you to acquire the latest equipment, how do you proceed?
- Should you pay cash? Lease? Rent? Get an installment loan?
- The answer is "It depends," and what it depends on is what you're trying to accomplish.
- Are you concerned with cash flow issues?
- Are you concerned with balance-sheet management?
- Managing the Fleet

# Considerations

- Fiscal Responsibility

- Interest charges
- Cash flow issues
- Time Value of Money
- Concerns about fees and extra charges

*CASH FLOW...*

- Equipment

- Transfer of Risk
  - Disposal, operational costs, safety
- Total Cost of Ownership
- Use vs. Ownership
- Obsolescence
- Innovation
- Equipment Purpose

*Performance...*

# Before you lease:

- What's the total cost of leasing?
  - Payments
  - Fees
  - Return Considerations
    - Usage/Hours
    - Condition expectation
  - Service
    - Full
    - Self
- Besides the cost, how does leasing compare to an installment loan?
  - Rate, Term, Residual
  - Ownership
  - End of term options
  - Automatic decision point

*Is it important for me to own this equipment?*

# Before you finance:

- What's the total cost of finance?
  - Interest Rate
  - Fees
- How much do I need for a down payment?
- What are the monthly payments?
  - Interest Rate
  - Term
- Is it important for me to own this equipment?



# Before you rent:

- How long do I need the equipment?
  - Short Term
  - Seasonal
- What are the rental payments?
  - Hourly
  - Weekly
  - Monthly
- What kind of service and support can I expect?

# Paying cash:

- Is this going to deplete my reserves?
- Could I find a better use for my cash?
- Have I given the other options enough consideration?
- What is driving this decision?

# Cash Flow

Major issues to think about as it relates to cash flow are:

- Cash on hand
- Down payments
- Monthly payments
- Overall cost

# Putting a replacement plan together

- **Equipment needs**
- **Replacement timing**
- **Financing options**
- **Annual Budget requirements**

Microsoft Excel ribbon showing various toolbars: Workbook Views, Show/Hide, Zoom, Window, and Macros.

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<---- Insert City/Course Logo

**City of Anywhere USA  
10 Year Plan, prepared on 7/11/02**

**Scenario 1: Staggered Rollout. 4 year residual lease. 4 year comprehensive warranty coverage.**  
 Assumptions: Constant interest rates. Price of 4 year warranty coverage remains constant to equipment price.  
 Trade In prices are estimates of market value at time of trade in.

Current 48 Month FMV Rate Factor 0.0204  
 Current 48 Month CSC Rate Factor 0.0247

**Purchase Timetable**

Equipment Inventory	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	To
Groundsmaster 580-D (1)	\$ 72,408				\$ 84,707				\$ 99,095				
Groundsmaster 580-D (2)	\$ 72,408				\$ 84,707				\$ 99,095				
Groundsmaster 580-D (3)			\$ 78,316				\$ 91,619				\$ 107,181		
Groundsmaster 4500-D	\$ 46,750				\$ 54,691				\$ 63,981				
Groundsmaster 455-D		\$ 36,221				\$ 42,374				\$ 49,571			
Groundsmaster 4000-D			\$ 47,374				\$ 55,421				\$ 64,834		
Workman 2110				\$ 10,125				\$ 11,845				\$ 13,857	
Sweeper 4800				\$ 17,055				\$ 19,952				\$ 23,341	
<b>Total Equipment Cost (New)</b>	\$ 191,565	\$ 36,221	\$ 125,690	\$ 27,180	\$ 224,104	\$ 42,374	\$ 147,039	\$ 31,797	\$ 262,170	\$ 49,571	\$ 172,015	\$ 37,198	\$ 1,000,000
Estimated Price Increase (from prior year)	10%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Trade In Amount	\$ (25,000)		\$ (15,000)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Amount Financed (New equipment)</b>	\$ 166,565	\$ 36,221	\$ 110,690	\$ 27,180	\$ 224,104	\$ 42,374	\$ 147,039	\$ 31,797	\$ 262,170	\$ 49,571	\$ 172,015	\$ 37,198	\$ 1,000,000
Yearly Payments (4 year lease) (New)	\$ 40,775	\$ 8,867	\$ 27,097	\$ 6,654	\$ 54,861	\$ 10,373	\$ 35,995	\$ 7,784	\$ 64,179	\$ 12,135	\$ 42,109	\$ 9,106	\$ 0
<b>Yearly Payments All Equipment</b>	\$ 40,775	\$ 49,642	\$ 76,739	\$ 83,393	\$ 97,478	\$ 98,984	\$ 107,883	\$ 109,013	\$ 118,331	\$ 120,093	\$ 126,207	\$ 127,530	\$ 0
<b>4 Year Warranty Cost</b>	\$ 8,632	\$ 2,271	\$ 6,440	\$ 1,530	\$ 10,098	\$ 2,657	\$ 7,534	\$ 1,790	\$ 11,813	\$ 3,109	\$ 8,813	\$ 2,094	\$ 0
Yearly Payments (4 year term)	\$ 2,559	\$ 673	\$ 1,909	\$ 453	\$ 2,993	\$ 788	\$ 2,233	\$ 531	\$ 3,502	\$ 921	\$ 2,612	\$ 621	\$ 0
<b>Yearly Payments, all warranties</b>	\$ 2,559	\$ 3,232	\$ 5,141	\$ 5,594	\$ 6,029	\$ 6,143	\$ 6,467	\$ 6,544	\$ 7,053	\$ 7,186	\$ 7,566	\$ 7,656	\$ 0
<b>Total Yearly Payment, all equipment (Equipment covered by 4 year comprehensive warranty)</b>	\$ 43,334	\$ 52,874	\$ 81,879	\$ 88,987	\$ 103,507	\$ 105,127	\$ 114,350	\$ 115,557	\$ 125,384	\$ 127,280	\$ 133,773	\$ 135,185	\$ 1,000,000
Repair costs (Parts, Repair Labor, Overtime Labor)				\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Cost</b>	\$ 43,334	\$ 52,874	\$ 81,879	\$ 88,987	\$ 103,507	\$ 105,127	\$ 114,350	\$ 115,557	\$ 125,384	\$ 127,280	\$ 133,773	\$ 135,185	\$ 1,000,000
	(add repair costs)		(add repair costs)									avg/year	\$

▲ Customer remains responsible for routine maintenance, parts and insurance.

- **HAVE A PLAN**

- Understand your financial Position and goals

- Use tools available to plan

- Use Electronic fleet management tools to calculate the Total Cost of ownership to plan for replacement



# Questions?