SURPRISING REALITIES OF FORKLIFT LEASES

Operations that use forklifts have options for acquiring material handling equipment, whether purchasing outright, financing or renting. Leasing offers several clear financial benefits and is often the most cost-effective option – provided lessees know what to look out for. Review several powerful truths – and potential pitfalls – of forklift leases to help your operation make more informed decisions.

1 // THERE'S SIGNIFICANT FINANCIAL UPSIDE TO FORKLIFT LEASING. BUT THAT'S NOT THE #1 BENEFIT.

Leasing can preserve and lower the cost of capital, manage taxes through deductible payments and enable unique payment options to meet specific cash flow requirements. But leases can also provide valuable predictability and simplicity for lessees. Leases bundle equipment costs into a single fixed monthly payment and alleviate businesses of the responsibility of disposing of or selling used equipment, so they can focus on core competencies rather than understanding who will buy a 10-year-old forklift and at what price. While these benefits are significant, arguably the most important advantage of leasing is not as easily recognized. Leasing is essentially a passive, yet very effective, form of fleet management.

Leasing enables operations to replace forklifts as their maintenance costs increase, optimizing fleet costs and improving overall operational efficiency. Customers who purchase equipment typically keep it for 10 years or longer, sometimes even for 20 or 30 years. Older equipment is generally costly, due to increased maintenance spend and diminished reliability. Hanging on to older equipment also hampers performance by limiting access to newer technology and features that can have a significant positive impact on operations. Transformative advances have been made in material handling, from newer forklift motive power options like lithium-ion, to new safety and ergonomic developments and even equipment design that provides increased productivity at a lower total cost of ownership.

2 // INTEREST RATES SHOULDN'T NECESSARILY DICTATE WHETHER YOU LEASE NEW EQUIPMENT.

The operational benefits of leasing can drive substantial savings through fleet rotations that keep equipment at maximum efficiency, but when rates are rising, businesses sometimes shy away from leasing in hopes of saving on interest expenses. Of course, lease payments decrease when interest rates are lower and increase when interest rates are higher, but that is often true for other equipment acquisition options as well. The primary alternative to leasing involves obtaining money through a bank, and the cost of that loan is tied to interest rates and inflation, too. Because loan agreements are for the entire cost of the equipment, they result in higher payments than a lease where lessees do not pay for the residual value of the equipment at the end of the term, which is often 20 to 40% of the equipment cost.

While interest rates are a driver of costs, they are by no means the only factor. To understand the complete cost comparison and value of leasing, businesses must also account for the operational benefits that are consistent regardless of the state of the economy and that help drive a low total cost of ownership.

3 // STICKER SHOCK AT THE COST OF REPLACING FLEETS? A LOW MONTHLY PAYMENT CAN'T BE YOUR TOP PRIORITY

In recent years, longer than usual lead times for new forklifts caused many companies to hold onto equipment longer than they had originally planned, renegotiating lease extensions with lower payments. Those lower payments combined with economic changes in the interim, specifically higher interest rates and inflation, have produced sticker shock for some as they replace existing fleets with new equipment. When shopping for a new equipment lease, it can be tempting to focus only on the lowest monthly payment, but that approach can run up major costs. Lease contracts may include hidden fees and other provisions that increase the overall cost of the lease.

All of these fees are negotiable, but different kinds of leasing providers have intricacies that can be hard to find and understand. Before pulling the trigger on the lease with the lowest monthly payment, be sure to carefully read and fully understand the language in your lease contract to assess the overall cost.

4 // THIS HIDDEN FEE IS ONE OF THE MOST EXPENSIVE SURPRISE COSTS IN EQUIPMENT LEASE CONTRACTS.

Freight charges to return equipment to a designated location at the end of a lease term are one of leasing's greatest unforeseen expenses. Many third-party leasing companies, or "independent" lease providers, are financial services firms that have off-lease forklifts shipped to a designated holding yard at the lessee's expense, regardless of whether that location is nearby or across the country. The cost to ship equipment, which often must be laid down and crated, can reach into the thousands for even a single forklift, let alone a fleet. Pay careful attention to freight charges in lease contracts and if needed, negotiate a return location close to where the equipment will be used. The kind of lender that you decide on can also make a difference – a manufacturer that provides financing options to its customers will sometimes have a network of local dealers that can pick up equipment coming off lease when they deliver new forklifts, eliminating costly freight charges.

WATCH OUT FOR OTHER HIDDEN FEES

Just one unexpected fee can be costly, but racking up multiple surprises can dramatically impact the overall cost. Read more about common forklift leasing traps to avoid.

5 // NOT ALL FINANCING LENDERS ARE CREATED EQUAL. HERE'S WHAT MATERIALS HANDLING OPERATIONS NEED TO KNOW.

There are two major types of lenders, banks and independent lease providers, or a division, subsidiary or joint venture of the manufacturer. The two have very different characteristics that are important to understand. With independent leasing companies, their product is financing. In other words, the lease is how they generate profit. For manufacturers, leasing is a tool to support customers and sell more equipment. Manufacturers are experts in the material handling equipment, with experience optimizing fleets, liquidating their own equipment, and measures to help minimize repairs and other unplanned costs at the end of the lease. When choosing a provider, consider whether they are incentivized to make quick sales and short-term profits or build lasting, long-term relationships. Contract term flexibility and willingness to negotiate are positive signs, along with their capability to provide ongoing support after the lease is signed.

6 // NEGOTIATING A FORKLIFT LEASE? THE MID-LEASE REVIEW IS A SECRET WEAPON FOR GETTING THE BEST VALUE.

If a mid-lease review isn't already part of the contract proposed by your lender, negotiate for this provision to be included. A mid-lease review option is relatively rare within the leasing industry, but the flexibility it provides is key to achieving the lowest overall cost and getting the most from what you pay.

It's important to be as accurate as possible when estimating equipment usage at the start of a lease, but changing economic conditions, the availability of production material and labor, and other factors make it nearly impossible to perfectly forecast requirements for a full five-year lease period. With a mid-lease review, the actual forklift run time will be compared to the hours allowed in the contract, and if needed, the lease can be restructured to increase or decrease allowed hours for the lease term to better match how you are using the equipment. These reviews are also an opportunity to validate that the equipment being used is still the most appropriate for the task and to make a change if another piece of equipment would be a stronger match.

For more information on leasing, visit the Hyster® Capital financing page.

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