Lease, Buy, or Do Nothing?

Want new equipment but don't have the cash? There are other options for you.

While picture framing is not a particularly "capital-intensive" business, there are some pieces of equipment that can benefit your bottom line. This would include point-of-sale software, computers, saws, choppers, joining devices, computerized mat cutters, printers, glass cutters, and laminating and mounting machines. When you add it all together, it can add up to some real money.

Before I go any further, I want to "frame" this one-way discussion. I have always operated my business with the desire to grow it, to give the best product to my customers, or, at the very least, to be as efficient as possible. In order to do that, I have in fact invested in all of the tools and equipment mentioned above. *Invested* is the key word; it means I have calculated some return on investment (ROI) that made it worth the money.

It is through this lens that I am going to go through some options on various ways to acquire some or all of this equipment if you don't have endless cash available. If you are sworn off of debt, have horrendous credit, aren't sure you want to still be in business in a year, or are as happy as a clam (I'm not sure why clams are so happy, but I can't know everything), this will be more of an academic read for you.

When I talk to framers and ask them why they don't have some piece of state-of-the-art equipment, the frequent answer is, "I can't afford it." As far as I'm concerned, that phrase has no place in business. There is "I don't think it will pay for itself (ROI)," which is legitimate, or there is "I don't have any cash," to which there are some solutions. Just because you don't have the cash doesn't mean you don't have a way of financing the equipment you want. And even if you do have the cash—assuming it is not unlimited—that doesn't mean it's a good idea to use it for this purpose. As you grow your business, there are other demands for cash that cannot be easily financed. This would include increasing inventory, hiring new staff, advertising, increasing your finished goods inventory, making framing samples, and improving the looks of your store.

If you decide that there is a good enough ROI to buy something, here are some options to consider.

Leasing

Leasing is frequently misunderstood. Unless you are leasing a car or getting a computerized mat cutter that includes some kind of maintenance package, most equipment that you lease is really another form of financing. You don't just give it back to the vendor at the end of the lease and get a new one; you probably have some kind of buyout at the end.

Jay Goltz is president and founder of Artists Frame Service, Inc., the world's largest custom picture frame shop, and Bella Moulding. With more than 40,000 square feet and 50-plus employees, this facility is more than 20 times the size of the average picture framing company in the U.S. He also owns Chicago Art Source and Jayson Home, located adjacent to his framing business in Chicago. Jay has received numerous business awards and is a frequent public speaker. Artists Frame Service was featured in the book "Small Giants-Companies That Choose to Be Great Instead of Big" by Bo Burlingham (editor of Inc.). Jay is also the author of "The Street-Smart Entrepreneur."

This is what the IRS calls a "capitalized lease." That means the piece of equipment will depreciate and will be treated the same as if you purchased it.

Knowing this, you might ask, why not just borrow from the bank? Good question. I hate to break this to you, but the bank doesn't really love you. They do love making money, though, and it is really hard for them to make money on a small loan for equipment that has a questionable resale value. Maybe you do have a bank that is interested; you should ask, as I haven't talked to every bank in the country. But if I turn out to be right, there are other options.

There are many equipment finance companies out there that actually want your business. How do they do it? They charge more interest—but that isn't necessarily a bad deal. Depending on your credit score and the size of the transaction, the interest rate will probably be between 5 and 12%. If you have calculated a return on investment of 20-100%, this might be a bargain. They usually have easier credit requirements than the bank, so even if your credit score is so-so, it is worth looking into.

There is probably another bonus of this approach, too; if you lease or even borrow through your company, it will not necessarily show up on your personal credit file. This can be important if you need more personal credit for a house or car loan, or a luxury boat that you probably should not be buying—that's what rich friends are for!

Using a Credit Card

Calm down. I know the interest rate can be anywhere between 10 and 30%. This is about math. If the ROI is high enough, it could be well worth it. Some equipment could either generate enough extra revenue or save enough money to make the ROI so good that paying a high interest rate is well worth it. At the very least, find out what the interest rate is. Call them. Sometimes they have special programs that are really a good deal. The banks are sitting on a lot of cash, and they are looking to put it somewhere. Sometimes the "cash advances" are as low as 3% or so for a year and a half (they will be called "zero interest," but there is a 3-5% transaction fee).

Part of the reason they can do this is because some people cannot pay it off at the end of the program, so they end up paying the high interest. If you are making enough money and are confident you can pay it off at the end, this is a really good deal.

Other Options to Get Cash

There are numerous companies out there that advertise to small businesses about their easy-to-get business loans. Since the pandemic, they have been largely underground. My guess is they will be back. Here is something to look out for; if the "loan" is to be paid back over six months, that is not really financing—it is a short-term loan, and the law does not require them to show an annual interest rate.

Here is an example of how it goes. You call. They ask you how much your monthly revenue is. You tell them you need $20,000 for whatever—they don't really care. They tell you they can do the transaction and that all you need to do is pay back $4,000 per month for the next six months. You do the math—or at least you think you do the math. $4,000 x 6 = $24,000. That would be $4,000 in interest. You figure that is a 20% interest rate (20% x $20,000). You would have figured wrong. The loan was only for six months, not a year. So you have to double it to 40%, right? Wrong again. You are paying back the loan every month, not all at the end. You have to double it again to about 80%.

Yes, 80%! That is how they can afford to advertise so much and to absorb the high default rate from people who get in over their head. I called one of these companies to get the numbers provided here. In the end, I told the friendly person on the other end of the line, wow, that is about 80% interest! She asked me how I figured that out; she was surprised I did. I'm sure there are situations where it is worth it, like a big, profitable job for which you need to buy materials. But I wouldn't recommend it for buying equipment.

Finally, a word of warning: I am an entrepreneur. I do the math. I take chances. I do not live in fear. I look for opportunities to grow my business. If you ask your non-entrepreneur father, mother, spouse, accountant brother-in-law, or hairstylist what they think of these ideas, you are likely to hear some hysteria or well-worn clichés. I get it. I am not normal; most people who know me will attest to this. But what I'm illustrating here is hardly investing in Bitcoin or penny stocks. If I were normal, I would have become an accountant. Being an entrepreneur has worked out for me. I want it to work out for you, too, if that is what you want. If you'd be happier being able to tell everyone "I have no debt," then it might make more sense for you to buy some new equipment outright that will help you grow.

So, there you have it. New equipment can give you a new lease on life. I'm not sure where that phrase comes from, either! PFM