Printing Industy Blog

Benefits of 3rd Party Lease Expert

By Clint Bolte
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Andy Tribute wrote a great article a few days ago on the current status of inkjet technologies and equipment leaders along with issues that each potential buyer should keep in mind. One facet was not addressed that I would like to add. And this pertains to all equipment acquisitions. Each and every buyer regardless of size should have a third party, i.e., independent, lease expert review the proposed manufacturer's or financial institution's contract.

The tip of the iceberg of the lease problems is well known. For example, the problem consistently arises when volume unpredictably fluctuates – spikes and falls – and the basic printing needs change before the life of the lease is up. The lease contract dictates fixed monthly or quarterly minimum charges regardless of lower volumes. Also premium prices are levied above the all inclusive charges when volume spikes back up the next period. To convert to the annual volume equivalent "is not possible" after the lease is signed.

One of the most frustrating case studies was presented during the MFSA-NAPL Fulfillment Conference a few years back. A Philadelphia printer bought the unused and unopened branded toner supplies from a bankrupt competitor at a heavy discount during the equipment auction. The manufacturer sued this entrepreneur because their contract stipulated that only toner purchased from the manufacturer was permitted. Pretty shortsighted perspective from the manufacturer perhaps but not at all unusual.

Often the equipment lease is written by the manufacturer's general counsel with the express purpose of protecting the supplier, locking in the customer, and maximizing its revenue streams by whatever legal verbiage possible. Capital equipment manufacturers legal departments go to great lengths to fine-tune this expertise.

Other times, equipment manufacturers do not choose to run their own leasing operations. They form joint ventures with international financial institutions, banks and independent leasing companies. These firms have full time legal, credit, lease and asset management departments whose only business is leasing. These highly skilled lease professionals write ironclad contracts that maximize financial returns for their benefit and that of their manufacturing partners. It was common knowledge, for example, that the financing arm of General Motors, i.e., GMAC, always made more money on a margin basis than the auto manufacturer itself. And this was well before their bankruptcy.

Virtually every printer turns these manufacturers lease agreements over to their own general council for edit and review. The first problem is that these lawyers are virtually never experts in equipment lease law verbiage. They are generalists not specialists. And the most important problem is that these attorneys never understand the digital printing needs of their corporation and caveats borne from the dynamic unpredictabilities of the printing business. (Your attorney will rarely acknowledge their limitations.)

The pot of gold at the end of the rainbow for the buyer is to find a third party leasing expert. This individual should not work for any leasing company, lease broker, or equipment vendor. They should be able quickly to assess the printer's digital printing needs from a straight forward though thorough needs assessment survey. And then they review the manufacturer's proposed lease for a multitude of phrases that turn out to be untenable "gotchas" that are most certainly not to the printer's benefit. Quite often the expectant buyer is not even aware of the interest rate they will be paying, which - believe it or not - is occasionally exorbitant.

From this review a report is prepared listing vulnerable sections and clauses and the proposed more amenable alternate wording. The printer or purchasing agent can then negotiate with the supplier if they wish.

This in house negotiation step is fraught with its own frustrations, as the supplier knows that there are only days before the existing lease expires and the new one must go into effect or further usurious fees are enacted from the old lease! Automatic renewals sometimes as long as 12 months in advance may be enacted if proper notification to the lessor is not given. In other words, request the standard equipment lease from the supplier at the time "they submit their RFQ response, which is 60 days or more before the old lease expires, or their bid is considered nonresponsive." (The game can be played both ways!)

Many printers find that the most successful methodology is to have this third party lease expert negotiate these new preferred terms for them. This is often done in a conference call with both the printer and expert talking to the manufacturers' lease department. This is the first time that the printer will discover a delightful surprise. (All other surprises described in this article have intentionally been horrific though unfortunately too often realistic.)

So where do you find this lease expert?

"The delightful surprise is that the manufacturer's leasing department is often delighted to negotiate the terms of the lease, says Mary A. Redmond, President of Independent Lease Review, "particularly with another professional who understands what the gobbledygook actually means."

Additionally firms from other industries have found that having this lease expert actually prepare a Lease RFQ based upon the firm's specific needs is the best of all solutions. This proactive RFQ is the basis for the ultimate lease agreement.

This highly specialized expertise has proven time and again to deliver cost savings of many times the original investment.

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