How to Budget for More Expensive Construction Equipment

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The time has come for you to buy a piece of construction equipment to help your business grow. You've determined what you need, and it's time to pull the trigger. But you're scared. After all, it has a heavy price tag, and you're not sure you can afford it.

This is where a dealer is your best friend. They don't want to just sell you a machine, they want to be your business partner and help you come up with solutions to the challenges you face in your business every day.

"Working with the dealer can really help," says Josh Beddow, marketing manager with Toro. "They can look at different options that meet or match up with what your organization has budgeted for. For example, if the organization has a considerable down payment already budgeted for or is able to acquire the equipment outright, or if the organization is looking for more flexible payment options without having to have that initial down payment, there is certainly a variety of options available that the dealer can help the organization understand and ultimately find something that is best for that organization's goals."

Brad Stemper, solutions marketing manager with CASE Construction Equipment, agrees. "These are discussions that should be had in conjunction with both your accounting department and your local equipment dealer. Equipment dealers, in conjunction with the manufacturers they represent, generally have a variety of ways that they can make equipment purchases work – helping determine whether it's a practical purchase at that time or not."

Understanding how a machine will be used is important for making buying decisions.

Rent, lease or buy options

One of the first questions the landscape contractor should ask themselves is: What do I want to accomplish with the equipment I'm purchasing? Based on that usage expectation, they can look at leasing, financing, purchasing the equipment outright or renting for a short period of time.

"A number of our dealers do rent-to-own programs as well if [contractors] want to try before they buy," Beddow says. "There are quite a bit of options depending on how many hours you plan on putting on the piece of equipment and how many years you plan on owning it."

With leasing, you're able to control your monthly payments. Look at it in terms of how much you want to spend per month. If you're going to own the piece of equipment for a shorter period of time or you are looking at how many hours a year you're going to run the equipment and you're in the middle range of usage, you may spend less over a shorter period of time leasing than owning the equipment outright.

"The other benefit of leasing is to get newer pieces of equipment more frequently, if that's something your organization likes," Beddow says. "Maybe you like that because you like to see new features and product enhancements because we're constantly bringing new innovations to the market. If I go with the lease option, I can get a new piece of equipment every two to three years."

If you're wrestling between renting or leasing, you want to focus on the time frame. Leasing would be 36 months, whereas renting would be anywhere from a day to a month or multiple months or a rent-to-own situation.

"The nice thing about that is it gives you a nice opportunity to try the machine before you acquire it," Beddow says. "For a lot of dealers, they can roll the money you're spending on rental toward the purchase of the equipment, depending on the dealer and what type of arrangement you have."

As far as purchasing outright goes, there are some tax benefits. It all depends on your financial situation, depreciating equipment and more. It makes more sense if you're going to own the equipment for a longer period of time.

"Over the life span of the equipment, there reaches a point where owning is better than leasing, depending on how long you're going to run and operate the equipment," Beddow says. "Ultimately, you have that asset so you can resell it, continue to run it as long as you wish, etc."

Does one of these options fit a certain size landscaping operation better? Beddow says there really isn't a correlation between the size of a business and their preferred method of acquiring a construction machine.

"A lot of large companies want to lease because they don't necessarily want that asset on their balance sheet," he says. "A number of smaller companies want to buy the machine outright because it's a better investment for them longer term to have acquired the machine – and there are tax advantages they can achieve for doing so. It depends on the financial goals for your organization and how you want to utilize your capital."

Josh Bedow with Toro says working with a dealer can help you determine your buy, lease or rent options.

Determine your needs

So how do you know you need a piece of construction equipment, and that it will be worth the investment? First, are you finding that you need to rent a certain machine a lot? Maybe you rent a piece of equipment for a particular project, but you're finding you're doing more and more of those projects.

"Every company's finances and how they budget or plan for equipment will be different," says CASE's Stemper. "Having access to any piece of equipment essentially provides the ability or opportunity to do work, so it's not just a discussion of, 'Can I afford to make this purchase now,' it's also a discussion of, 'Do we have the demand to make this purchase profitable?'"

Adds Beddow, "You're looking at how much money you're spending on rental versus how much you could be contributing toward payment to actually acquire an asset. That's certainly one indicator."

Examine your budget

Another thing to do is to analyze your expenses. Ask yourself, can a piece of equipment and the costs associated with it from a payment perspective (maintenance cost, operating cost, etc.) help make my labor more productive and therefore lower my overall labor expenses as a percentage of sales?

"Oftentimes, acquiring additional equipment to help your labor be more productive is a way to continue to grow your business and grow your profits as well," Beddow says.

For example, the Dingo compact utility loader, being a stand-on machine, can increase labor productivity with easy access on and off the machine. Plus, it's easy to operate so less skilled operators can run it. Visibility is much better, plus it's smaller and more maneuverable and can access tight spaces.

"That's where you're looking at complementing your hand labor in those tight spaces," Beddow says.

Plus, the compact utility loader has over 35 attachments for trenching, digging, hauling, augering, lifting and more.

With Toro's range of machines, a piece of construction equipment can be anywhere from $15,000 up to $45,000. Someone doing residential installation or smaller irrigation installations might see the benefits of owning a smaller walk-behind trencher. Someone who is doing larger, more commercial installations might be more in the market for a vibratory plow. What types of projects are you commonly doing? What size are they? And what are your production goals?

“We talk a lot about utilization with equipment,” CASE’s Stemper says. “Understanding how that equipment will be used and the total percentage of time it will be needed is critical before making any acquisition decisions. Think of it as almost making a business plan for that individual piece of equipment or attachment. What, exactly, will buying this piece of equipment allow you to do that you were unable to do before or what efficiencies will it provide your operation? And how will that affect your bottom line?”

Stemper adds: “What kind of business do you want to be and what do you need to stay ahead of the competition? The answer to those two questions lays the foundation for the tools you’ll need to get the job done. Then, based on the type of equipment you need, it will get down to discussions on sizing, transportation resources (trailers, etc.), attachment capabilities, operator skill sets and what that machine will do to help you grow your business beyond what it is today.”

10 Questions to Ask During the Financing Decision

- How long do I plan on keeping the equipment?
- How important are lower monthly payments?
- Is cash flow important to my business?
- How else might I use money not tied up in monthly equipment payments?
- What other additional equipment do I need to consider buying?
- Do I have cash set aside for business emergencies?
- How will this investment come back into my business operation?
- How important is a lower initial investment?
- Are maintenance costs important to me?
- Do I need this equipment for a specific period only?