



# CONSIDER LEASING RATHER THAN BUYING AND BEGIN PAYBACK IN YOUR FIRST MONTH OF OPERATION

There are a variety of financing options available for acquiring new automation equipment. Each is unique in the benefits it has to offer, from impact on cash flow to flexibility in repayment schedules. In this article we will look at the advantages and disadvantages of purchasing versus leasing and the effect they will have on your company's bottom line.

## THE PROS AND CONS OF PURCHASING VS. LEASING

The traditional option for procuring new equipment is outright purchasing. This is considered a capital expenditure (CapEx) which is reflected on your company's balance sheet as a capital asset, valued at the purchase price less depreciation. On the company's income statement, the purchase price of new equipment is entered as a one-off CapEx in the operations expenditure column.

### Disadvantages of Purchasing Automation Equipment:

- High initial capital outlay for equipment can affect a company's cash flow.
- Equipment can become outdated or completely obsolete.
- Resale price can be lower than the depreciated value of the equipment.

### Advantages of Purchasing Automation Equipment:

- Ownership of the equipment is proprietary to the company.
- Tax breaks and incentives may be available to the purchaser.
- Depreciation is a deductible expense on the income statement.

While some companies still choose the purchasing (CapEx) option when it comes to acquiring new equipment or upgrading existing systems, many progressive companies opt for a leasing solution which offers financial planning flexibility that conserves capital reserves.



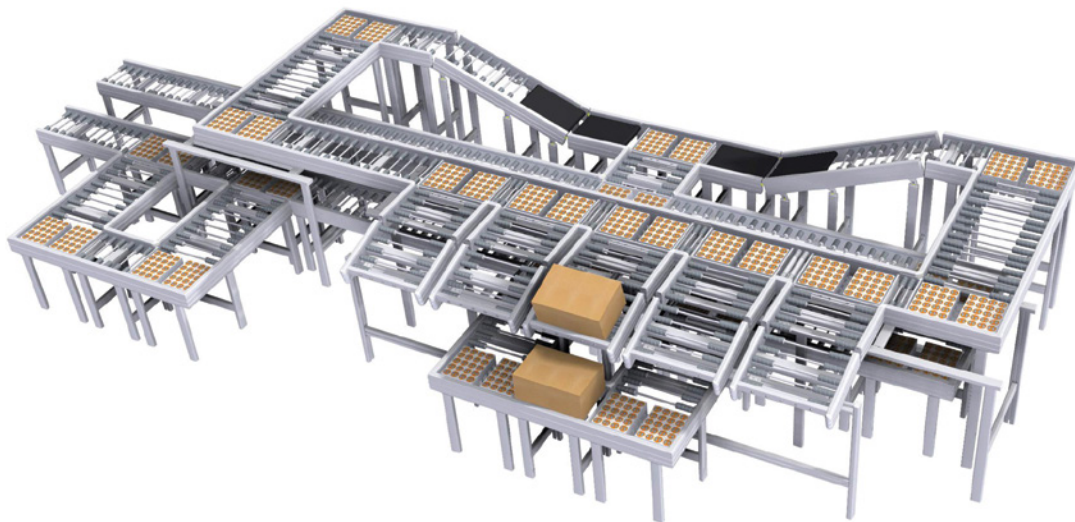
A well-structured lease agreement can convert CapEx to an operating expense (OpEx) and the payments appear on a company's income statement as a tax-deductible expense. Lease agreements are particularly attractive acquisition options for companies with limited cash on-hand or that are acquiring equipment that will need to be upgraded or replaced in the future.

#### **Disadvantages of Leasing Automation Equipment:**

- Ownership may only go to the company on completion of buyout obligations.
- Total cost of ownership can be higher than the outright purchase price.
- Some leases may not be eligible for tax-saving depreciation allowances.

#### **Advantages of Leasing Automation Equipment:**

- Leases do not require down payments or posting of collateral.
- Maintenance and repair expenses are often covered by the lessor.
- Leases usually have options to upgrade, buy out and even to exchange equipment.



## **REAL-WORLD EXAMPLES OF THE BENEFITS OF LEASING**

Acquiring your new automation equipment with a PSI leasing solution results in numerous benefits, including quicker ROI and improved cash flow. These savings can be used for other projects to improve the productivity and profitability of your company and boost your bottom line. Consider the following three case studies:

### **1. The world's second-largest eCommerce retailer**

One of the top 5 integrators in the world, with sales over \$2B USD, was approached by the world's second largest eCommerce retailer to increase their current throughput at one of their distribution centers from 20K orders per day to 60K. This eCommerce retailer was using older technologies with many manual transactions and wanted to upgrade their automation systems. Simulations were run, and even with the most advanced automation technology the integrator only increased the throughput to 45K orders per day. The eCommerce retailer was ready to send the application out to general tender because of the integrator's shortfall.

PSI was contacted by the integrator for help in getting this project to meet the retailer's throughput requirements. The PSI team of engineers designed a solution that would increase throughput to 62K orders per day. The eCommerce retailer was impressed with the increased productivity and gave the integrator the go ahead for the project, as well as the task of modernizing more of their distribution centers. The integrator subsequently leased 5 more automation systems from PSI that year alone.



## 2. The number 1 Canadian-owned 3PL

This top Canadian-owned 3PL is a leading Canadian 3PL supply chain and logistics services provider that needed to expand its operations. The original scope of the project was \$1.5 million. Unfortunately, the capital expenditure budget was for only \$1 million. This meant a lot of the upgrades that would have improved the efficiency of their automation system had to be omitted due to the budget shortfall.

Mick Fox, Director of Operations at this 3PL, reflects, "The expected ROI was 36 months but we realized our payback in 18 months. I wish we had added more functionality to the system." Had the 3PL implemented a PSI leasing solution rather than purchasing, the full project scope could have been realized and they would have seen a saving on a monthly basis immediately.

## 3. The top mobile and Internet provider in the US

An Internet router distribution center for this top US mobile and Internet provider almost cancelled an automation project because the first phase of their application didn't meet their ROI criteria for their allotted CapEx. However, when the second phase – an additional operator task reduction automation system leased from PSI – was combined with the first phase, the ROI criteria was exceeded.

Fortunately for all parties involved, the provider's board of directors approved the whole project based on the improved ROI of both phases combined. Had they opted for leasing in both phases from the outset, monthly returns would have been even higher, and ROI would have been achieved sooner.



**Instead of waiting to purchase a new or upgraded automation system, leasing equipment from PSI delivers immediate results, without the heavy blow to your company's cash flow. The exponential increase in efficiency and throughput delivers ROI within the first month of use.**

**Consider leasing rather than purchasing and begin to see payback in your first month of operation.**



*PSI Engineering is the leader in the manufacture, service and support of innovative automated and semi-automated pack and sortation systems, print-on-demand systems, and print-and-apply systems.*

**CONTACT PSI ENGINEERING TODAY AND LET'S TALK. [WWW.PSIENGINEERING.COM](http://WWW.PSIENGINEERING.COM) • 1 905 858 3600**