

The Evergreen Lease Agreement-How to lower costs by fulfilling your equipment lease terms completely

During my tenure as a dealer principle, I had a conversation with an office equipment leasing company executive. We were discussing the return of a large population of multi-function copy equipment from a mutual customer. For this customer, my dealership had stayed on top of all the lease requirements for notification of intent to return equipment at lease expiration. On my customer's behalf, I was making the arrangements for the return of the equipment. The leasing company executive was reluctant to provide return authorization information for the equipment.

To help me understand why I was hearing the reluctance on the part of the leasing company executive, I began asking probing questions to determine if he felt our customer had not fulfilled the terms of the lease contract. I quickly confirmed that all the lease's provisions had been followed to the letter. The real problem was that the leasing company expected their leases to renew for at least one additional renewal term.

The leasing company executive admitted that their business model incorporated them receiving the additional revenue of at least one renewal term. Their residual position (what they expected to receive by selling the equipment to someone else) was set expecting this additional revenue. If they didn't receive the renewal revenue, their profits were off (low) for that transaction.

Why Leases Renew

I asked the executive how they could be so sure that equipment would go into renewal. Without hesitating, he answered because historically most of their equipment leases do. After getting up off the floor, I asked his opinion why that many leases went into renewal. He replied that it was either the lack of tracking the lease expiration or turnover in the customer position that was responsible for notifying the lease company in a specific time frame (designated within the lease agreement). The majority of copier leases are written for a 5-year lease term. Turnover (either promotions or by leaving) within a customer's business does usually occur before the end of the lease. In addition, during the course of busy days at the office, no one stops to document lease expiration dates. It seems so far away and therefore unnecessary at the time.

Leasing companies do frequently (usually quarterly) send equipment vendors a list of their lease portfolios with that leasing company in hopes the vendor will upgrade the customer's equipment and extend the customer's leasing relationship with the leasing company. If the equipment vendor is paying attention to their customer base, they will notify you of the approaching lease expiration (and try to upgrade your equipment). If an equipment lease renews, this makes it very difficult (read expensive) for a competing equipment vendor to economically upgrade the equipment before the

expiration of the renewal term. This strategy was constructed intentionally to give the incumbent equipment vendor (and leasing company) a financial advantage in upgrading the equipment before the expiration of the renewal lease term. A lease renewal limits your options, which is never good for you.

Only the incumbent equipment vendor who agrees to use the same leasing company can upgrade equipment on a renewed lease without penalty. Any other combination of equipment vendor and/or leasing company will have to pay the remaining payments of the renewed lease term (usually 12 months).

Why Does This Matter to Me?

The primary reason you don't want your lease to renew is that you are being forced to pay new equipment costs (i.e. the same lease payment) for your old and well used equipment. In essence, you have no options. In contrast, if you don't get snagged by the lease renewal, you can always lease more highly featured and productive equipment for the same or lower cost. Another available option is to release your same equipment (assuming it has been working well) for a shorter term at a significant discount.

There has been some backfiring of this intentional upgrading plan when customers are so infuriated by the renewal that they refuse to work with either the equipment vendor or the leasing company. As a result, there has been a softening of some of the stringent requirements. You have to check the verbiage in your current lease agreement in the section labeled something like "End of Lease" or "Renewal" to determine the expiration criteria.

What Can You Do?

To keep your company from getting snared in the lease renewal trap, set a calendar reminder in several support staff's computers to remind you to send the lease expiration notice on time (usually 90 to 120 days in advance of lease expiration-check your lease for specifics). This should prevent staff turnover from erasing memory of that necessary step. Another option is to set up "delayed send" e-mail messages from several computers to be sent to several staff members reminding them to send the lease expiration.

There are also free external calendars that you can set up to send an e-mail reminder to several people in case your organization deletes all information from previous users of a computer. Applications like calendar.yahoo.com and Google calendar can be set up to provide e-mail reminders to multiple people to assure you cover your turnover and promotion events. This way you can notify the leasing company in a timely manner.

As you execute a new equipment lease, make a 30-day renewal mandatory before you approve it. If you do miss the notification deadline your lease only renews for 30 days. Remember you do have to provide the written intent to return equipment to prevent or end the renewal cycle.

When sending the expiration notice make sure you include the lease number, the copier brand, state your intention to return the equipment upon lease expiration and request return authorization information. Address the letter to the same address that you send your lease payments to (located on your monthly lease invoice). Make sure you include your company name, mailing and e-mail addresses, as well as phone numbers on the letter. There is a generic lease expiration template available for download on our web site at www.bottomlineadv.com on the "Resources" tab. Make sure to send the notice to return via provable mailing method. Options include certified mail, overnight carrier, as well as several multi-day delivery options as long as you receive a tracking number. You must be able to prove that the notice arrived at the leasing company's office within the time frame specified in the lease agreement.