



**LEASING SALES
TRAINING
MANUAL
FOR DEALERS**

LEASING SALES TRAINING MANUAL FOR DEALERS

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A WHAT IS LEASING?

In order to effectively use leasing and thereby increase sales and ultimately your commissions, you should have a basic understanding of what leasing is designed to do. In essence, leasing is "the ultimate sales tool." It can be made to do a number of things that make it easy for your client to acquire equipment. This is because of leasing's amazing flexibility.

Let's examine leasing to see what it can do.

1. In the truest sense of the term, leasing is a tax oriented method of gaining the use of an asset that will produce more income or benefits than it will cost.

Because the payments on a lease may be totally income tax deductible, the payments come out of pre-tax income rather than after-tax profits. This allows the government to absorb up to one half of the costs. Depending upon how much income the asset produces, your client can make a substantial income with a very limited investment.

2. A lease can be used as a sales contract. That is, your client can buy an asset at a set amount with a specific amount of interest and a specific number of payments. Then at the end of the term, the asset is paid for and ownership passes.
3. A lease can be a method by which a client can obtain either use and/or ownership of an asset while matching a payment schedule to a pre-determined budgetary allotment.

In other words, it may be possible to tailor terms to the client's situation. Terms like this are not arranged in the traditional manner. If your client is a good credit risk but has an unusual payment request, it can be considered.

4. If properly used, leasing's major importance to salespeople is that it can bring out objectives, be a closing tool, and will help you bracket your client's cost objectives. This means more sales and therefore more commissions.

BENEFITS OF LEASING TO THE SALESPERSON **B**

Anyone who buys anything resents a "what you see is what you get" attitude. To many customers, that is exactly what a cash sale says. They pay their money, you leave your piece of equipment, and it is their problem from then on.

All salespeople will tell their clients about their wonderful service, etc. However, only when you start discussing leasing on the same equipment can you really demonstrate that you have a desire to form a long-term relationship with your customer. This is true because leasing is a long-term arrangement. Your customer is paying for the use of the equipment a little at a time. It says you will be there long after the sale is closed, and that is appreciated.

In addition, you are giving your customer several distinct advantages in a lease situation. To any good salesperson, the question is "what advantages will leasing give me?"

1. You have just signed your customer to a multi-year contract. This gives you the opportunity to sell maintenance as well as supplies. The customer is protecting his equipment best by letting trained professionals keep the equipment in top-notch condition, and by using the type of recommended supplies provided by your company, which comply with the manufacturer's specifications.

Since the lease is set up on monthly payments, both you and the customer have an interest in the machine.
2. You are selling a monthly payment, not a total retail price. Your sales price may be several hundred dollars higher, but your equipment rental price will be within a few dollars of your competitors. If the customer feels your equipment is superior, a few dollars will not matter. Therefore, retail price makes no difference.
3. Future business becomes much easier. You have a reason to drop by and discuss the customer's needs on an ongoing basis. As his needs grow, you have a better opportunity to offer him the type of equipment that will fit his changing needs.
4. It makes selling larger equipment and multiple sales much easier. If you would rather sell your prospect your deluxe model at \$12,000 than your base model at \$9,500, it is much easier to do so by comparing a \$350 monthly lease payment to a \$400 payment. Use leasing and talk about \$50 per month difference, not \$2,500!
5. You can offer your customer more ways to obtain your equipment. Anyone can take an order for a cash sale. There is no problem if the client has arranged his own financing. However, you become a problem solver and a true professional when you can show your customer how to save some of his operating capital, or if you can provide financing without putting all of the burden on him.
6. You can offer your customer a new line of credit. In today's market, this can be very valuable to any prospective client. There are many people who offer to find new lines of credit for businesses and make a very comfortable living by charging for their service. You provide this service for free.
7. Leasing removes a major objection many prospects have in obtaining new equipment—having to ask someone to lend them money to buy it. By offering your customer a lease arrangement as a way of meeting his needs, you eliminate this objection.
8. When your customer leases your equipment, he is tying up less of his capital than with a cash sale or bank financing that requires a large down payment.

No one ever has enough operating capital, so by stretching his limited funds to expand his lines of credit with leasing, it will be much easier for him to purchase more of your equipment later. And we all know the value of repeat customers!
9. A lease or rental plan will increase your sales by showing your customer a way to obtain the equipment now. He can acquire equipment in a timely fashion, without having to be concerned about the budget he has to live within.

This is especially true if your customer has depleted his capital equipment budget. It is much easier for a customer to justify leasing a piece of equipment and paying for it from the money he will save, or from the cash flow that the equipment will produce. Recognize this, and use it to your advantage!
10. Once the lease is signed and you have an advance rental check, you take the customer out of the marketplace with your equipment, not your competitor's. You become easy to buy from—your customer appreciates that fact, and this enhances his image of you as a full service professional.

BENEFITS OF LEASING C TO THE CUSTOMER

Before your customer uses his available cash, or borrows to finance his next capital equipment purchase, have him think about today's alternative...

LEASING!

Here are 9 good reasons why he should:

- 1. COVER ALL EQUIPMENT COST—**
No need to obtain financing elsewhere.
- 2. CONSERVE WORKING CAPITAL—**
Cash isn't tied-up in equipment. It's free for income-producing investments.
- 3. PRESERVE BANK LINES—**
Credit remains available for other needs.
- 4. SAVE ON TAXES—**
You save initially because leasing costs come out of before-tax dollars, not after-tax profits.
- 5. SIMPLIFY ACCOUNTING AND DEPRECIATION RECORDS—**
Leasing costs are tax deductible.
- 6. AVOID RAPID OBSOLESCENCE—**
The most modern equipment is always available, and up-dating is easy. So you can always be at your competitive best.
- 7. FIGHT INFLATION—**
Leasing costs remain the same, no matter how much prices rise. You pay for today's needs with tomorrow's dollars.
- 8. KEEP EQUITY INTACT—**
There is no need to issue stock or sell part of the company to raise capital.
- 9. EXPAND, REPLACE EQUIPMENT SOONER—**
Since no capital investment is involved, expansion and replacement of equipment may happen more quickly.

While leasing can provide your customers with many benefits in acquiring your equipment, let's look at some common questions that arise in selling your customers on the benefits of leasing.

Does leasing conserve capital?

You bet it does! There is no large cash outlay for deposits or down payments. Usually, the first rental payment is the only cash you need. Your working capital stays in your business earning interest through investments, or is available for other uses.

What about the other costs?

There aren't any. Your lease covers all of your equipment costs. Even such expenses as installation, maintenance, freight, and taxes, which normally require cash, can be covered in your lease and amortized over its life.

Do I save on taxes?

You certainly do! First, your leasing payments come from pre-tax dollars, or current income, not your profits. In addition, all of your rental payments are treated as tax deductible expenses.

What about inflation?

Leasing lessens the impact of inflation, because your leasing payments remain the same, no matter what happens to the value of the dollar. For example, if inflation decreases the value of the dollar and your leasing payments remain the same, you are actually paying less, because each dollar of your payment is worth less than it was when your payments began.

What happens when my equipment becomes obsolete?

There is no need for your equipment to ever become obsolete. Leasing makes it much easier to replace equipment, because there are none of the problems you would run into if you had to sell equipment you owned. You may lease newer, more modern equipment whenever you choose, so you always have the most up-to-date equipment available.

What else should I know about leasing?

For one thing, accounting records are much simpler when you lease. When you want new equipment, you don't have to worry about selling the old. Actually, you avoid many of the burdens of ownership, and have all the benefits of total use.

Wouldn't you rather lease?

LEASING AS A SALES TOOL

This section of the manual will help you present the leasing story to your customers. It describes successful lease selling strategies. A good working knowledge of this section will definitely increase your commissions.

SELLING STRATEGIES

1. ALWAYS QUOTE MONTHLY PAYMENTS, NEVER TOTAL PRICE—

Often the hardest obstacle to overcome in a sale is the price. The better your equipment is, the more the customer may think "I can't afford it." Anticipate this objection and overcome it by quoting a low monthly payment instead of the total purchase price.

2. MENTION THE MONTHLY PAYMENT EARLY—

Many salespeople carefully avoid mentioning the price until the close of the presentation, even though price may be uppermost in the customer's mind. By mentioning the monthly payment early, the customer is free to concentrate on the benefits and features of the equipment without a high cost looming as a barrier to the sale. The customer's decision can then be made based upon what the system will do, not what it will cost.

3. RECOMMEND THE 36 MONTH TERM FIRST—

When your customer asks "What's the price?" respond with the monthly payment for a 36 month term. This way you will find out how close you are to the customer's budget. You will also use this strategy to bring out other possible objections by using rate factors that include more than one payment in advance. The more payments you collect in advance, the lower you will be able to keep your customer's monthly payment.

If the customer objects to the length of term, raise the term to 48 months with a slightly lower monthly payment. If he objects to the amount necessary to start the lease, you can offer 1st payment only. Leasing's flexibility allows you to adjust the term to suit ALL your customer's needs.

4. CALCULATE THE MONTHLY PAYMENT BEFORE YOUR SALES CALL—

Frequently you have an idea of the type of equipment and size of sale your customer is interested in before making a formal sales call. Use your Leasing Rate Factor Card to calculate the monthly payment on several or so possible equipment configurations. By doing this, you will know in advance a number of different payment alternatives that you can provide your customer when you meet with him. That way, you will be able to mention the monthly payment early in your presentation.

5. TALK ABOUT SAVINGS AS WELL AS COST—

A persuasive argument for leasing state-of-the-art equipment is increased efficiency. More efficient equipment saves businesses both time and money. When you are talking to a prospect, relate the amount

of money saved through the use of your system to the nominal cost of leasing the system. For example below is the monthly, daily, and hourly cost of leasing a \$7,500 piece of equipment for 36 months:

Monthly Cost	Daily Cost	Hourly Cost
\$269.18	\$8.97	\$1.12

To dramatize this principle, project the savings over the term of the lease. For instance, a \$40 monthly savings adds up to \$1,440 at the end of 36 months.

6. DRAMATIZE THE AFTER-TAX PAYMENT—

Since the monthly payments may be fully deductible operating expenses, the after-tax cost is usually less than the figure you are quoting. If your customer is in a 38% tax bracket, for example, the actual lease payment is reduced from \$269.18 a month to just \$166.89.

Monthly Lease Payment	\$269.18
Deductible Expense (38% tax)	<u>102.29</u>
After-Tax Payment	\$166.89

7. USE THE LEASE TO UNCOVER OBJECTIONS AND CLOSE THE SALE—

A successful salesperson will be closing the transaction throughout the sale. An initial TRIAL CLOSE tells you if the customer is ready to make a decision. To the question "Do you prefer the first payment I quoted or the second?" the customer may respond "Well, I'm not sure I want this equipment at all." This provides the opportunity to ask why, and UNCOVER THE OBJECTION.

If, on the other hand, the response to the trial close is positive, then it is time to ask for the equipment order and explain the additional benefits a customer would have by leasing the equipment.

Or, try an ACTION CLOSE by handing the customer the lease and asking for an approval. A CONCESSION CLOSE may also work. If you have quoted a 36 month term, now is the time to say, "If I could lower that payment (to a 48 month) would you sign?". An ALTERNATIVE CLOSE may be more effective. . . "Would you like that accessory with this order or shall I add it later?"

Regardless of how you introduce it, leasing helps you close more sales.

8. USE THE LEASE TO BUILD REPEAT BUSINESS—

Leasing encourages repeat business by making it easy for customers to add on and trade up equipment. And once a customer has leased equipment, the idea of making monthly payments is familiar, the customer simply budgets for them automatically.



E

THE APPLICATION— THE SECRET TO SUCCESS

Any good credit analyst looks at three things when considering a good credit application. First, and foremost, is the ability to pay. We use financial statements to do this. We further check this through the banker you list, and by showing positive cash flow through prompt payment of trade references over an extended period of time. No matter how good credit has been, without continued ability, the credit will not continue to be good.

Second, is credit rating. The references you provide should show a history of satisfactory cash management and willingness to repay. If credit is slow, we must assume cash flow is tight.

Thereafter we consider the stability of the firm, that is, how long have they been in this business? Is the industry a viable industry? Do they have any related background? What is net worth according to their credit references, etc.?

Therefore, it is doubly important that the *right* questions be asked as it is your answers from which we will make our decision. When you try to short cut, this risks the chance of having to go back to get the right information you could have gotten the first time, or you may even lose the deal. Remember our decision is only as good as the information you supply to us.

Here are some questions that will qualify the type of information that will help get the most applications approved. Tactfully presented, your client will realize that you are a full service professional who is doing the job right the first time. Here are some suggestions:

1. What trade references have you dealt with the longest? Which is your biggest reference?
2. What banks have you dealt with the longest? Who carries your operating line now? Who handles your account at your bank? Do you have other bank loans?

3. In cases where the business has not been in business at least 2 years, you might ask: How did you happen to choose this particular business? Could you provide the leasing company with a copy of a recent financial statement if that became necessary? Is there any information you feel might be helpful to the leasing company to help them get your lease approved quickly?
4. On sole proprietorships, partnerships, and closed corporations, be sure to get principal's home address and social security number. This is necessary to obtain a personal credit report. If the present address is new, get the previous address.
5. It would be wise to have your client advise the bank that a leasing company will be checking out an application and request the bank's assistance.

Credit is a logic based industry. Often problems with approvals are that the right questions weren't asked, and therefore, good quality information was not supplied to aid in approving credit worthy deals. Remember, you can't make any money until a sale is made, and with lease deals, *approved*. Likewise, we cannot make any money by declining good deals. Our goals are the same. But we must depend on you to provide us with the type of information that will give us the same picture that you see.

The following are some basic guidelines or credit parameters. If your deal does not meet these parameters, a caution flag should go up in your mind, and you should take care to give us information that will assist us in making a proper decision.

1. Generally in business at least 2 years.
2. Viable industry not subject to drastic cyclical swings in earnings (example: real estate firms generally have problems when interest rates are high).
3. Profitable operation or with certain agencies continuation of satisfactory funding.
4. Debt coverage including new lease payments over 100% of last fiscal period.
5. Continuity of successful management.

SUMMARY

This manual contains the basic information you need to use leasing as an effective selling tool. After you have reviewed the material, try applying the concept of leasing to daily sales situations. If you have never used leasing before, now is a good time to start. If you have used leasing occasionally, or as a last resort, try using it as an integral part of your sales strategy. Introduce it during your first sales call. That way your customers will overcome cost concerns early and be free to concentrate on equipment capability.

Keep in mind that even to customers who can afford to pay cash, leasing provides definite advantages. Leasing offers all the financial benefits important to your customers: tax relief, protection against inflation, a means of staying

within budget, and preservation of credit lines. Above all, leasing provides the most flexible financial alternative available today.

As equipment salespeople, you are used to handling quality products. Now you can offer top-of-the-line financial services as well as prices even a restricted budget can handle.

Be sure to use the marketing support and expertise provided by your Leasing Representative. We want to help you become more successful through effective use of leasing as a sales tool.

F

GLOSSARY OF TERMS

Advance Rental Payment—The payment or payments made at the initiation of the lease contract, i.e. first rental payment or first and last two rentals.

Authorized Signature—A signature by a person authorized by a company to obligate the company on a long-term lease. An authorized signer will usually be substantiated by the Corporate Resolution which specifies who can sign and what his/her responsibilities may be.

Bargain Purchase Option—A lease provision allowing the lessee, at its option, to purchase the equipment for a price predetermined at lease inception, that is substantially lower than the expected fair market value at the date the option can be exercised.

Bargain Renewal Option—A lease provision allowing the lessee, at its option to renew the equipment lease for a rental rate predetermined at lease inception, that is substantially lower than the expected fair market value at the date the option can be exercised.

Capital Lease—Type of lease classified and accounted for by a lessee as a purchase and by the lessor as a sale or financing, if it meets any one of the following criteria: (a) The lessor transfers ownership to the lessee at the end of the lease term; (b) the lease contains an option to purchase the asset at a bargain price; (c) the lease term is equal to 75% or more of the estimated economic life of the property (exceptions for used property leased toward the end of its useful life); or (d) the present value of minimum lease rental payments is equal to 90% or more of the fair market value of the leased asset less related investment tax credits retained by the lessor. (Also see finance lease.)

Closed End Lease—A true lease in which the lessor assumes the depreciation risk. The lessee bears no obligation at the end of the lease. This term is used to distinguish the lease from an open-end lease.

Conditional Sale—Also known as a security agreement. An agreement with an option to purchase the leased property at the expiration of the lease term at a bargain purchase price. This purchase price is predetermined, and the user of the equipment is treated from the start as the owner of the equipment.

Effective Lease Rate—The effective lease rate (for the lessee) of the cash flows resulting from a lease transaction. To compare this rate with a loan interest rate, a company must include in the cash flows any effect the transactions have on federal tax liabilities.

Exemption Certificate—A document exempting a lessor or lessee from paying sales tax on the equipment being leased. A lessor is buying the equipment for "re-sale" as would a vendor/supplier, while a lessee may be tax-exempt for other reasons, i.e. a non-profit entity or a bank.

Fair Market Purchase Option—An option to purchase leased property at the end of the lease term at its then fair market value. The lessor does not have the ability to retain title to the equipment if the lessee chooses to exercise the purchase option.

FASB 13—Statement issued by the Financial Accounting Standards Board establishing financial accounting standards for lessees and lessors.

Financing Statement (UCC-1)—A standardizing form recorded with the Secretary of State and/or County Clerk to perfect a lien under the Uniform Commercial Code by notification to all interested parties. Used with some financing leases to protect lessor's interest in the equipment.

Finance Lease—General term applied to most types of equipment leases. Typically, a finance lease is a full-payout, noncancellable agreement, and the lessee is responsible for maintenance, taxes, and insurance.

Finance Lease-TEFRA—A lease which would be treated as a true lease for tax purposes notwithstanding the existence of a fixed price purchase option of at least 10% or if the equipment has a use limited only to the lessee.

Floating Rental Rate—Rental which is subject to upward or downward adjustments during the lease term. If the prime interest rate changes during the term of the lease, the rental rate may change to reflect this.

Full Payout Lease—A lease in which the cash flows will return to the lessor the acquisition cost of the asset, the cost of financing, overhead and an acceptable return on investment.

Guideline Lease—A lease written under criteria or "guidelines" established by the IRS to determine the availability of tax benefits to the lessor.

Lease—A contract in which one party conveys the use of an asset to another party for a specific period of time at a predetermined rate.

C



GLOSSARY OF TERMS

Lease Rate (Rental Payment)—The periodic rental payment to a lessor for the use of assets.

Leasing Line—An amount of funds set aside by the lessor for a lessee to use over the commitment period.

Lessee—A party who makes use of property owned by another party (the lessor) and pays the lessor, usually in the form of rentals, for that use.

Lessor—Company or leasing entity that is legal owner of the leased equipment.

Level Payments—Equal payments over the term of the lease.

Leveraged Lease—In this type of lease, the lessor provides an equity portion (usually 20 to 40%) of the equipment cost and lenders provide the balance on a nonrecourse debt basis. The lessor receives the tax benefits of ownership.

Long Term Lenders—Term typically used to describe the institutional lenders supplying debt (up to 80% of equipment cost) for leverage leases. Lenders receive no tax benefits from the lease but receive a fixed rate over a long term.

Master Lease—A contract where the lessee leases currently needed assets and is able to acquire other assets under the same basic terms and conditions without negotiating a new contract.

Net Lease—A lease where lease payments paid to the lessor do not include insurance and maintenance, which are paid separately by the lessee.

Nonpayout Lease—A lease in which the cash flows will not be sufficient to cover the full costs of the equipment, the costs of financing, the costs of administration and provide a satisfactory return. The lessor looks to the residual to realize profit.

Off-Balance Sheet Financing—Unlike the traditional methods of financing, operating lease obligations are not capitalized, thus improving balance sheet ratios. Leases are generally footnoted.

One Hundred Percent Financing—Because no compensating balances or downpayments are required, leasing provides 100% financing.

Operating Lease—An operating lease is any lease which is not a capital lease.

Portfolio Acquisition—The process of purchasing a package of lease and/or time sales contracts and discounting the flow of remaining payments.

Present Value—The current equivalent value of payments or a stream of payments to be received at various times in the future. The present value will vary with the discount interest factor applied to future payments.

Purchase Option—A provision by which a lessee has the right to purchase the equipment at the end of the lease. The purchase option may be stated at a specific dollar amount or at fair market value.

Put—An option one person has to sell an asset to another person at the set price at some established point in time in the future. In lease agreements, a lessor sometimes negotiates an option to sell leased equipment to the lessee or to some third party at an established price at the end of the lease term. This is to protect the lessor's exposure on the residual value of the leased equipment at the end of the lease term.

Recourse Agreement—An agreement with a vendor whereby the vendor will purchase or repurchase the lessor's interest in a lease, usually upon demand, after default of the lessee. Generally, the lease must be in default sixty to ninety days and a reasonable amount of collection effort exerted by the lessor. "Recourse" is more common in the financial industry and not in leasing.

Renewal Option—After the initial lease term, a lessee may have the option to renew the lease for estimated fair rental value for a term not to exceed the useful life of the equipment. Usually renewals are on a year-to-year basis payable in advance and the renewal amounts are generally lower than the rentals during the lease term.

Rental Factor—Numerical factor multiplied by total cost of equipment to compute rentals.

Rental (Use) Tax—Many states charge a "use" tax in lieu of a sales tax when equipment is leased. So instead of paying a sales tax for purchase of the leased equipment, taxes are collected by the lessor as a percentage of the rentals over the lease term.

Residual Value—The value of an asset at the conclusion of a lease.

Sale and Leaseback—An arrangement where equipment is purchased by a lessor from the company owning and using it. The lessor then becomes the owner and leases it back to the original owner, who continues to use the equipment.

Security Deposit—The payment made at the initiation of the lease contract used as a security deposit, until the lease comes to term and then to be refunded at the end of said term.

True Lease (for Tax Purposes)—A "true lease" is a term for defining types of transactions which qualify as leases under the Internal Revenue Code as the lessor can claim benefits of ownership such as depreciation, and the lessee can claim rental payments as tax deductions.

Uniform Commercial Code—A standardized program and method of administering, legalizing, and recording lien instruments adopted now by all states except Louisiana.

Useful Life (Economic Life)—The period of time during which an asset will have economic value and be usable. Useful life of an asset is sometimes called the economic life of the asset.

Vendor Lease—A lease wherein an equipment manufacturer or distributor has its own leasing company or an agreement with a leasing company to offer lease financing as a sales aid. A vendor lease may be either a conventional true lease or a conditional sale.

Vendor Leasing—A working relationship between a financing source and a vendor to provide financing to stimulate the vendor's sales. The financing source offers leases or conditional sales contracts through the vendor's sales representatives to the vendor's customers. In essence, the vendor leasing firm substitutes as the captive finance company of a manufacturer or distributor through the extension of leasing to customers, provision of credit checking, and performance of collections and operational administration. Also known as lease asset servicing or vendor programs.

Wrap Lease—A lease in which a lessor sells the leased equipment to a third party (an equity investor) who then leases the equipment back to the lessor for a longer term than the user lease. The equity investor's rights are at all times subject and subordinate to the original lender, who has a senior perfected security interest in the leased asset and an assignment of the user lease proceeds, e.g. rentals, casualty loss payments, indemnification payments, Note: Wrap transactions are done for tax purposes.