

5 Lease Mistakes That Will Cost You

By Gary Friedman, President, Cost Containment Specialists

Eighty percent of all organizations lease equipment. The list of leased assets includes phone systems, computers, software, servers, mailing equipment, printers, copiers, videoconferencing equipment, office furniture and automobiles. Leases contain benefits as well as trouble spots. Your goal is to negotiate an equitable contract.

Why organizations choose to lease:

- 1) Conserve cash flow.
- 2) Partner guarantees are not usually required.
- 3) Additional source of capital.
- 4) Small up-front investment.
- 5) Spread expenses over a long period.



Keep in mind that all leases are negotiable, but only if you ask. The problem is that most organizations do not attempt to negotiate the financial terms, conditions and unexpected surprise definitions of some words. Leasing has a language all of its own, “lease-speak.” There is no one-size-fits-all lease. It must be tailored (negotiated) to fit your organization.

If your organization does not frequently review and sign equipment leases, consult Cost Containment Specialists and one of our lease review specialists to keep current on the most common lease “mistakes.”

Five Areas to Investigate in Every Lease

- 1) **End of Lease Options:** At the end of the lease, the lessee should have three options: purchase, renew or return. Surprises occur when the definitions and conditions pertaining to the end options are uncovered.
- 2) **Renewal Option:** The renewal option may be automatic without notice from the lessee and can frequently add 12 extra payments. Some lessees fall into an automatic renewal and discover it only after months of making extra payments.
- 3) **Fair Market Value:** At lease end there is an option usually referred to as the “In-Use, In-Place Fair Market Value” purchase option.
TIP: Never assume that the “In-Use, In-Place Fair Market Value” is the same as the Used Equipment Value. It is not. These costs increase purchase prices by 10%-15%. We recommend a more detailed end of lease purchase option process.
- 4) **Return Charges:** If the organization decides to return the equipment at the end of the lease, packing and shipping charges as well as insuring the equipment is the Lessee’s responsibility. If returns are not well coordinated, the leasing company can also add rental ad storage fees.
- 5) **Missing Equipment:** When returning equipment, the Lessee owes the Lessor for missing, damaged or destroyed equipment.

Tip: With every lease contract, require a copy of the Stipulated Loss Value Table. Aggressively negotiate the values contained in the table. The leasing company says the amount on the table is what must be paid in order to make the profit they had originally anticipated when the lease commenced.

Use the “high-level” information contained in this article to reduce your organizations total lease spending. This piece contains only five of the lease surprises you may experience. If you want to learn more about lease “mistakes”, contact CCS.

About Cost Containment Specialists

Cost Containment Specialists is a national expense reduction firm that provides advisory services to organizations to assist them in reducing their indirect operating expenses. We engage Subject Matter Experts (SME) that have specific expense expertise in over 20 spend categories to analyze and negotiate our clients current and alternative vendors to realize savings greater than can be done internally. Since 1998, CCS has helped over 1,500 businesses and organizations find undiscovered cost savings. Our fees are success-based, so you do not pay us until we produce savings.

Contact us at 937-660-5368 x 10 or at gfriedman@cost-containment.com.