ISSUE 03 / Autumn–Winter 2015

equip

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The best rate might not be the best deal

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Analysing the options

Equipment safety
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CAN

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Issue 3: Autumn–Winter 2015

Welcome to equip, our refreshed and renamed industry update based on the Asset Finance Australia Index Report.

If you're new to the publication, we hope you find it valuable. Our goal is to provide unique insights into the key issues and trends shaping the equipment finance market. Our articles and insights are based on a wide-ranging quantitative survey and qualitative feedback from selected industry experts.

In this report, we tackle four areas of interest that emerged from our survey of 869 business decision-makers. Conducted by our research partners, East & Partners, the survey captures decision makers' views on the state of the market and the factors most likely to influence equipment financing and leasing decisions in the future.

We also look at workplace safety, as respondents told us that maintenance and accident prevention play into the decision-making process when buying new equipment.

And with an increasing number of businesses looking to buy equipment from brands new to the market, we look at the factors you should consider when comparing options.

You may have identified the right vehicles or equipment for your business and selected your purchase method – but what happens at the end of the finance term? We look at what businesses prefer and the options available.

And when is a low interest rate not a good deal? We look at ways to negotiate the best finance and purchase price for your cars and equipment.

But first up is CommBank's Diana Mousina, who notes that business generally isn't taking advantage of low interest rates, and considers the 2015 Federal Budget's small business package.

Enjoy our Autumn–Winter edition!

Bronwyn Yam
Managing Director
Asset Finance
Commonwealth Bank

About Equip Asset Financing Australia Report
The Commonwealth Bank has commissioned East and Partners to conduct research and provide insights for this edition of the Equip Asset Financing Australia Report. East & Partners' established research methodology has resulted in findings which are statistically robust and reflective of actual market experiences. Data is based on direct interviews conducted in March 2015 with a structured national sample of 869 businesses with annual turnover in excess of A$25 million. The sample has been structured to directly mirror natural distribution of these businesses by turnover segment, geography and industry. In building the sample frame, the relevant enterprise population demographic distributions reported by the Australian Bureau of Statistics are used, with actual interviewee targets being randomly selected. The sole selection criteria used in addition to this natural framing was that the target business had to be actively engaging in asset or equipment financing.

About East & Partners
East & Partners Pty Ltd, a leading specialist market research firm in the business, corporate and investment banking markets of Asia Pacific, works across 11 countries in the region delivering both multi-client and proprietary market analysis services to financial services providers.

More Information
For more information on how CommBank can meet your Asset Financing requirements, contact your Relationship Manager or contact our Asset Finance Team on 1800 ASSETS (277 387).

Industry fast facts

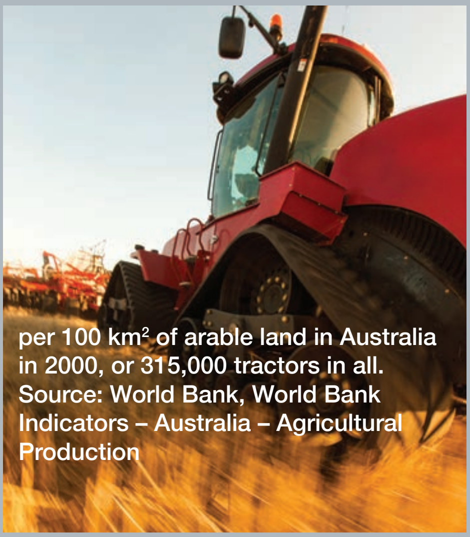
Safety

$60.6 bn

Cost of injury and illness to the Australian economy in 2008–09, representing 4.8% of GDP. Source: Safe Work Australia, Australian Work Health and Safety Strategy 2012–2022

Agriculture

There were **66.6** tractors



per 100 km² of arable land in Australia in 2000, or 315,000 tractors in all. Source: World Bank, World Bank Indicators – Australia – Agricultural Production

217,407m²

of office space was added to the national supply (all CBD markets) in the six months to January 2015. Source: Property Council of Australia, Office Market Report

Agriculture

Australians eat, on average,

33KG

of beef and veal per person, per year (this has remained relatively constant over the last 15 years). Source: Meat & Livestock Australia, Fast Facts 2011

Safety

2nd

'Accidents' ranked second in a survey of Australian businesses' concerns about impacts on cash flow. Source: CommBank Asset Financing Index, March 2015

Safety

There were 8 claims a day from mining industry employees requiring one or more weeks off work because of a work-related injury or disease in 2011–12.

Construction

17,124

Dwelling units were approved for construction in December 2014, 2.1% more than in December 2013.

Source: ABS, Building Approvals, Australia

Analysis

Economic update

From CommBank Associate Director Economics Diana Mousina.

The latest growth figures from the Australian Bureau of Statistics (ABS) have confirmed that the Australian economy expanded by a below-trend 2.7% over 2014. It's very much a tale of two halves, with annualised growth in the first half of 2014 tracking at 3.4% while growth in the second half was 1.7%. New sources of income are needed as the economy transitions from mining to non-mining-led growth.

Parts of this transition are on track. Resource exports are surging and will be a significant new source of income growth over the next two years. Australia's main export markets need to be strong enough to absorb the extra supply and pay a decent price. The residential construction upturn is also firmly entrenched. New dwelling commencements are expected to hit a record high in 2015. Construction-related lending (for new dwellings, renovations and vacant land) continues its record high growth. But the one part of the growth transition that is faltering is non-mining business capex.

Mixed signals abound

The fundamental and leading indicators of non-mining investment remain mixed. Strong population growth, low interest rates and a depreciation in the currency should all be positive for capex spending. But business confidence is lacking, with business surveys reporting below-average capacity utilisation. Commercial lending growth has also slowed, and commercial finance commitments are a key funding source for non-mining investment.

The latest CommBank Asset Financing Index indicates that business outcomes are quite mixed across the economy. State demand for asset financing has dropped in Queensland and WA in resposnse to the weak economic and business conditions. However, NSW and Victoria are seeking greater asset financing support.

Smaller corporates are reporting that they are stretching the working life of their assets. Mid-tier corporates are still reporting that they are expanding their asset financing needs, while demand from the largest enterprises has softened. Business surveys indicate that firms are waiting for a substantial increase in consumer demand and income growth before they commit to increasing new investment spending.

A budget boost?

The 2015 Federal Budget included a small business package that we expect will boost business confidence. Small businesses will receive a 1.5% company tax cut, lowering the rate to 28.5%.

The asset writedown threshold was also lifted significantly, to $20,000. Start-up businesses will also receive a deduction for professional fees. These measures are positive for small business growth – but the lack of focus on infrastructure spending is disappointing.

Low inflation rates have given the Reserve Bank of Australia (RBA) leeway to adjust interest rate settings; the latest cut to the cash rate (2.0% at the time of publication) reflects a more uncertain outlook around the non-mining capex transition. Concerns about potential macroeconomic risks in the housing market are really focused on Sydney, with price growth across the rest of Australia more muted. Low inflation, below-trend growth and the risks of a higher unemployment rate mean that it is probably too soon to be calling the end of this rate-cutting cycle, but we suspect the RBA will be very reluctant to move rates below 2.0%. The lack of forward guidance from the RBA would reflect this reluctance. Careful analysis of key events and data points over the next month (including business and consumer confidence following the Federal Budget and the ABS capex survey) will be important for upcoming RBA policy deliberations over the next few months.

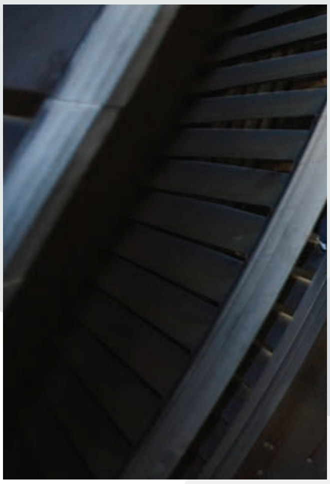
Investment indicators are mixed, with business confidence lacking despite low interest rates

Did you know?

Resources and residential construction are strong, but demand in the non-mining economy is soft.

Fast facts

2.7% – the Australian economy's growth over 2014.
3.4% – the Australian economy's growth in H1 2014.
1.7% – the Australian economy's growth in H2 2014.



Special report

The safety dividend

With unsafe workplaces costing Australia over $60 bn annually, the benefits of modern equipment have never been greater.

The cost of unsafe workplace practices is high: Safe Work Australia's most recent figures[1] show more than 12 claims for serious injuries per 1,000 workers, at a cost of $60.6 billion annually. Making safety a priority can bring benefits including fewer injuries, fewer compensation claims, lower insurance costs, reduced downtime, higher productivity and a culture of continuous improvement.

Equipment's role in workplace safety

The European Agency for Safety and Health at Work[2] notes that "regular maintenance has an important role in eliminating workplace hazards and providing safer and healthier working conditions".

A business with high safety standards will be better able to manage costs and cash flow as there will most likely

1 Safe Work Australia, Key Work Health and Safety Statistics, Australia, 2014

2 European Agency for Safety and Health at Work, EUROSTAT-ESAW figures, 2003–05

Focusing on the safety of the workforce yields greater value for shareholders

be fewer accidents and associated disruptions. And well-managed business machinery is not just safer – it tends to be more efficient and cost-effective too.

Better still, new technology often provides opportunities for improving on-the-job safety. For instance, in the transport and logistics industries, GPS can be used to locate drivers, track their speed or movements, and monitor driving time to ensure they're kept within safe limits.

Creating a safe and comfortable working environment

When you apply for equipment finance, banks and other finance providers need to look at your management of costs and cash flow. Among Australian businesses considering new purchases in the April–June quarter of 2015, 84.4% are looking to acquire plant or vehicles[3], so it's worth considering the safety and cost benefits that can be achieved.

Newer equipment tends to be more compliant, having been created in line with more recent and improved standards. It's also a popular option, with 56.8% of businesses intending to buy new equipment and 37.1% citing 'quality' as their primary concern, not price.[4] This reflects the fact that many organisations prefer to pay a higher price to get equipment from an established supplier with a proven track record for reliability and service.

Investing in updated assets is a good way to contribute to your workplace safety culture, which in turn has flow-on effects on worker morale and productivity. As WorkSafe Victoria notes, such a culture "makes good business sense. Not only does it contribute to a positive culture and a workplace surrounded by healthy, happy and focused employees, it also contributes to the bottom line".[5]

It's a position that's not just logical, it's well-understood, with 'maintenance/parts' and 'accidents' ranking first and second respectively in a list of companies' concerns about factors impacting their cash flow.[6] It's also backed by research, with one study comparing the stock market performance of workplace safety award winners to that of non-winners. The conclusion was clear: "Companies that build a culture of health by focusing on the well-being and safety of their workforce yield greater value for their investors."[7]

3 CommBank Asset Financing Index, March 2015
4 CommBank Asset Financing Index, March 2015

5 www.worksafe.vic.gov.au, 'Benefits of health and wellbeing'
6 CommBank Asset Financing Index, March 2015
7 R. Fabius, RD Thayer, DL Konicki, et al, 'The link between workforce health and safety and the health of the bottom line: tracking market performance of companies that nurture a "culture of health".' Journal of Occupational and Environmental Medicine, Vol. 55, No. 9 (2013), pp. 993-1000

Fast fact

2nd – 'Accidents' ranked second in a survey of Australian business's concerns about impacts on cash flow.
Source: CommBank Asset Financing Index, March 2015

Asset purchase

New brand or old?

Should you use a brand of equipment new to the market when upgrading your business assets? Here are some pros and cons.

Many Australian businesses planning to upgrade their equipment are considering new players in the market, with CommBank's own survey[1] finding 54% are looking at new market entrants as opposed to established brands. New brands may offer upfront cost savings when it comes to purchase price, and may pack a lot of punch on the features list, but it's important to look further when it comes to delivering business value.

Do your due diligence or find a company to do it for you

One of the easiest mistakes to make is to buy a new piece of machinery without looking closely at the brand. Our research[2] shows that the top three factors evaluated by businesses when selecting an equipment brand are quality (37.1%), effective life (35.2%) and cost (34.5%). Maintenance costs (23.4%) and warranty offered (15.1%) rate less strongly.

If you don't have time to assess a new brand yourself, hire a sourcing company to do it for you. Sourcing companies charge a management fee to do the due diligence and report on their findings, but, depending on the size of the purchase you're considering, it's likely to be money well spent.

Consider the new brand's Reputation

Reputation is one of the most important ways to evaluate a new asset brand. Investigate a provider's reputation – for example, by checking in credible industry publications – and talk to your finance provider about any new brand you're considering. Finance providers won't tell you what to buy, but reputation may enter into their calculations and impact on residuals, length of finance terms, and total cost of ownership.

Consider the new brand's environmental credentials

One of the upsides of purchasing new equipment is that it often has excellent environmental credentials. If you find a new supplier that has good green credentials, you might also gain benefits like lowered fuel costs and a reduced environmental footprint.

1 East & Partners, Australian Asset & Equipment Finance Markets – June 2015

2 East & Partners, Australian Asset & Equipment Finance Markets – June 2015

Fast fact

The top five considerations by business when evaluating a brand are:

– quality
– effective life
– cost
– maintenance costs
– warranty offered.

Source: CommBank Asset Financing Index, March 2015

Asset disposal

Starting at the finish line

Working out the best way to dispose of your business equipment will help you figure out the best way to acquire it in the first place.

Disposing of working assets and replacing them with new equipment in a controlled, predictable way can have a major impact on the long-term security of your company's cash flow and productivity.

Plan now, save later

Many factors affect the value of your business equipment at the end of its life. To manage disposal properly, you'll need to consider the asset's lifespan or effective life, the general state of the industry, how quickly technology is changing, the logistics of moving the asset and the liquidity of any secondary market that might purchase it.

Properly structuring your finance term also helps manage risk. For example, taking a five-year term on equipment that will be obsolete in two years will only weigh your business down. Likewise, opting for residual or balloon amounts that could be above market value when they are due could leave you dipping into cash reserves to finish your finance agreement.

A new lease of life

With only 9.4% of businesses looking to retain redundant equipment at the end of its life[1], most organisations must deal with asset disposal. Broadly speaking, the benefits of leasing, rather than owning, your assets include:

Cash flow – Keeping your cash reserves on hand helps keep your business agile and liquid while you invest in value-producing assets.

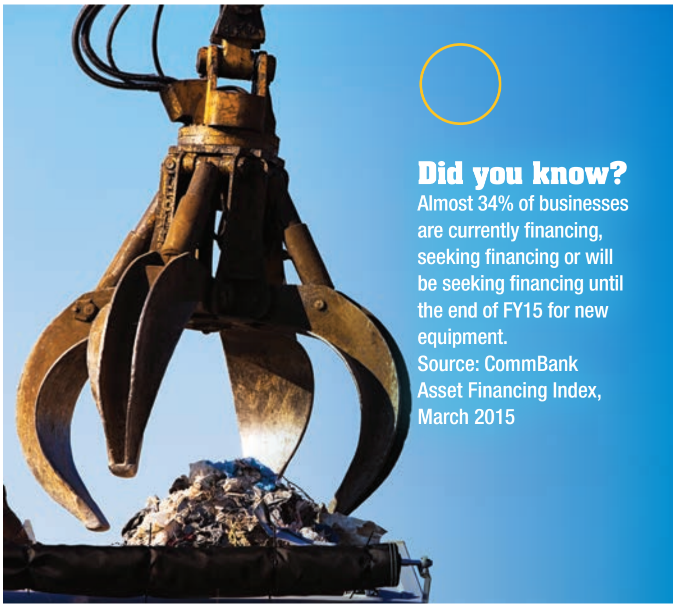
Flexibility – You can finance equipment based on current needs and add capacity if there is demand.

Greater productivity – Setting the length of the finance period in line with the expected effective life of the asset will allow you to upgrade to new models and retain efficiency.

1 CommBank Asset Financing Index, March 2015

Outsourcing risk management – Operating leases for IT and vehicle fleets put the risks of owernership and disposal into your finance provider's hands, not yours.

So weigh up your options carefully. Most Australian businesses are keeping their assets for nearly five years (58.8 months)[2], so consider what state your equipment will be in, how you would like to dispose of it, and what value you could add to your business by keeping your capital on hand for other purposes.



> **With only 9.4% of businesses looking to retain redundant equipment at the end of its life, most organisations must deal with asset disposal**

2 CommBank Asset Financing Index, March 2015

Finance

Get the best deal on your equipment

With interest rates at record lows, car and equipment financing can be a good option for Australian businesses.

Smart businesses are always looking for opportunities, and while the economy is slowing there is a silver lining: with interest rates at historic lows, now could well be the time to see if you can improve your business by acquiring new working assets or restructuring your finances.

There are a wide range of equipment finance solutions offering potential tax and cash flow benefits. If you have seen an opportunity and, with advice from your advisers, decided to seize it to upgrade or expand, here are some suggestions on how to ensure you're not paying over the odds for the equipment and finance you need.

How to save on vehicles and equipment

When you're buying business vehicles or equipment it can be tempting to go with the lowest advertised interest rate. These offers can be compelling – you can choose what you want (if in stock), get finance approved on the spot and organise fast delivery, or even drive away with a new vehicle on the same day. And with nearly half (49.8%) of businesses preferring motor vehicle finance from the dealer[1], these offers' popularity is undoubted.

But you should ask some questions to ensure you're getting the deal you need. Does a low interest rate (sometimes lower than mortgage rates) really mean you'll end up paying less over the agreement's life? Does the finance include up-front cash payments? Do the repayment amounts and dates match your business cycle and cash flow needs? Are there extra fees and charges in the contract?

You should also check the fine print. There may be conditions, like a restricted selection of models or variants, that mean you don't get exactly the equipment you could have in mind, or pay a higher price to get specific models or features.

So how do you get a good deal? We recommend a two-stage process. Negotiate your finance first, and separately, with an established finance provider. You can arrange fast pre-approvals and you'll get better buying power. Then, finance already sorted, you can concentrate on negotiating the best price for the right equipment.

Refinance at low rates to retire debt and grow your business

You can also improve your business capital and cash flow positions by refinancing existing agreements. Taking advantage of the current low-rate environment may mean you can lower your repayments or pay off your equipment faster.

Some finance providers can transfer your existing fully owned vehicles and machinery to finance or leasing agreements. This will release equity to put to work in other areas of your business.

Get a handle on your terms of trade

It's worth thinking about securing equipment finance with a bank or finance partner who provides a full range of banking solutions. Look for value-adding features and services, like real-time reporting within your transaction banking and benchmark information for your industry. You want a partner that can help you remain competitive.

There are many ways to use asset finance to benefit your business and now is a great time to consider your options. So do your homework, find a provider you trust, negotiate the purchase price and the finance package separately, and free yourself to concentrate on making your business a success.

1 East & Partners, Australian Asset & Equipment Finance Markets – June 2015

Negotiate your finance first, and separately, with an established finance partner

Did you know?
Nearly one third (33%) of Australia's GDP is generated by 1.2 million small to medium enterprises (SMEs) with annual turnover under $20 million.
Source: Australasian SME Alliance

Fast fact
Nearly half (49.8%) of businesses are using vendor finance to purchase motor vehicles.
Source: East & Partners, Australian Asset & Equipment Finance Markets – June 2015


Who can put equipment within easy reach? CommBank Can.
We're in the Can Business, which means when you're ready to buy, our equipment finance process is fast and simple.
CommBank's award-winning SmartSign® technology lets you review and sign your finance agreements anywhere, anytime. With the ease of online access, there's no need to print contracts, obtain a witness signature or even pick up a pen.
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