Keeping up with Technology and Short Business Cycles

In this competitive business environment, we all know that new equipment and technology are rapidly transforming numerous industries, but to really appreciate the exponential rate that technology is advancing these days, let's briefly consider one of the most important, most transformative pieces of equipment in human history: the plow.

Pulled by a draft animal and guided by a farmer, the plow, historians believe, has been around for at least 4,000 years, and since that time — up until the 19th century — plows pretty much have stayed the same.

Then things really started to change at a stunning pace. In the early 20th century, farmers no longer guided mule and oxen but drove tractors, and today, automated, GPS-controlled tractors can plow acres of farmland without anyone even looking at the soil.

For 4,000 years, farming practices stayed more or less the same, but in a little over 100 years, the technology has leapfrogged in astonishing ways. What once was a labor-intensive practice can now be done using automated machines.

The point of this example is that today, new equipment seems to come out at an exponentially rapid rate, and it can be hard to keep up.

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Competitive business cycles

Living in an age with such new equipment and technology advances is exciting. It has led to more efficiency, larger profits and has transformed almost every industry.

Nonetheless, from a buyer's perspective and from the perspective of an equipment manager, there's always the worry that the cutting-edge technology you invest in today will be obsolete in a couple of years. Your competitors will invest in equipment that utilizes better technology and you'll have no choice but to make yet another purchase.

To make matters more complicated, this rapid turnaround is coupled with what many people are seeing as shorter business cycles. This means that in financing equipment and in planning equipment purchases, one must consider not only the risk of obsolescence, but also a business climate that may go from expansion to contraction in a short amount of time, preventing a company from getting the full benefit of their equipment purchase.

No longer is the plow you purchased the same plow you will use for the next several decades.

Equipment financing and purchases:

The challenge woven into virtually every equipment purchase decision is twofold:

1) You want to make sure your investment will not be obsolete in a few years, and

2) You need to consider the business cycle. Though boom times may mean you're in a financial position to make a purchase, there is always the worry that a downturn is around the corner.

In many instances, it can almost seem like a stalemate.

Every industry will have its own unique factors to consider; however, there are large-scale indicators that suggest now is the right time to finance your next equipment purchase.

Why equipment financing is the right move to make:

While we don't want to diminish the challenges of making purchasing decisions, here are a few factors to keep in mind:

* We are on the upswing of the business cycle and likely to stay here for some time. In late February, Jerome Powell, the head of the Federal Reserve, said, "The next couple of years look quite strong. I would expect the next two years to be **good years for the economy**." To reap the full benefit of these coming boom years, it makes sense to upgrade now.

* The Tax Cuts and Jobs Act **slashed corporate tax rates** and lessened the burden on pass-through entities. This has freed up capital for virtually every business.

* In addition to cutting rates, the Tax Cuts and Jobs Act upped the **bonus depreciation rate to 100 percent**. Businesses can now deduct the full amount of purchases on eligible business property, computer software and other qualified equipment. However, this additional tax break will start to phase out after 2023.

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* The maximum deduction allowed **under Section 179** has been doubled. Businesses can deduct up to $1 million of the cost of qualifying capital equipment purchases.

Final considerations:

It goes without saying that, in order to stay competitive, companies need to make significant investments in the latest software and equipment. However, a combination of short business cycles, rapidly evolving technology and new processes based around automation keeps equipment managers on their toes and makes this an “easier said than done” situation.

There’s no formula that will tell you when or what to buy, but with a strong economic forecast and recent tax breaks, businesses are in a good position to finance the equipment they need to bring them to the next level.

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