

# KNOW YOUR FUNDING OPTIONS

Let's start by stating the obvious: supply chain management continues to become more complex. The last few years have brought to light the need for further optimization and efficiency throughout the supply chain, from procurement and production to distribution and fulfillment to last mile.

In our part of the supply chain world, we are continuing to see a growing need for businesses to automate their processes in order to overcome inefficiencies and keep or gain a competitive edge. Yet while the business case may be clear from an operational aspect for warehouse automation, getting the finance team's sign-off is not always a walk in the park.

Just as supply chains have seen challenging years recently, so too have recent and ongoing events had an impact on capital expenditure budgets. Market uncertainty, geopolitical risks, rising raw material and commodity costs, and the impact of inflation on pricing and order volumes are all causing companies to slow down on major supply chain investments. Additionally, there may be a lack of internal awareness about or confidence in automation, and this too creates hesitancy in investing.

# So what are you to do when there's obvious operational needs and benefits for warehouse automation, but the coffers are closed?

## 1

### BUILD UP YOUR FINANCIAL VOCABULARY

To win over your finance team, it helps to talk the same language. Here are some key terms and ideas to understand:

- **Owning vs. leasing:** when you own an asset, typically payments are made upfront or over the duration of the installation. When you lease an asset, you agree with an agent to use the asset for a certain amount of time and pay the agent on a regular basis in return for its use.
- **Hurdle Rate:** the minimum rate of return an investment must achieve for it to be considered, and is also the rate of return expected from alternative projects.
- **Net Present Value (NPV):** the sum of the present value of the projected earnings or savings generated by an investment minus the anticipated investment costs, discounted at the Hurdle Rate. If the NPV is positive, it means the rate of return is greater than the Hurdle Rate.
- **Internal Rate of Return (IRR):** the discount rate to make NPV zero.
- **Payback period:** time required to recover initial investment costs, considering savings and ongoing costs.
- **Return on Investment (ROI):** an approximate measure of an investment's profitability, calculated by subtracting the total cost of the initial investment from the expected future value of the investment, divided by the total cost of the initial investment.
- **Total Cost of Ownership (TCO):** sum of all the costs associated with an investment, including purchase price, lease payments, and/or any additional operating and maintaining costs.



# “Both owning and leasing are better options than not investing in automation”

## 2 KNOW THE PROS AND CONS OF THE MAIN FUNDING OPTIONS

Historically, for warehouse automation systems, the only option really considered by companies has been to own through upfront cash payments. Too few companies know the different funding options available these days and how other arrangements may actually be preferable to owning.

In a greenfield situation, meaning an investment into a new warehouse building and new automation systems, the primary funding options are:

- Own building, own automation
- Lease building, lease automation
- Lease building, own automation
- Own building, lease automation
- Building Sale Leaseback (existing or new purchase)

In a brownfield situation, meaning an investment into new automation systems in an existing warehouse building, options are still available:

- Own automation
- Lease automation
- Building Sale Leaseback

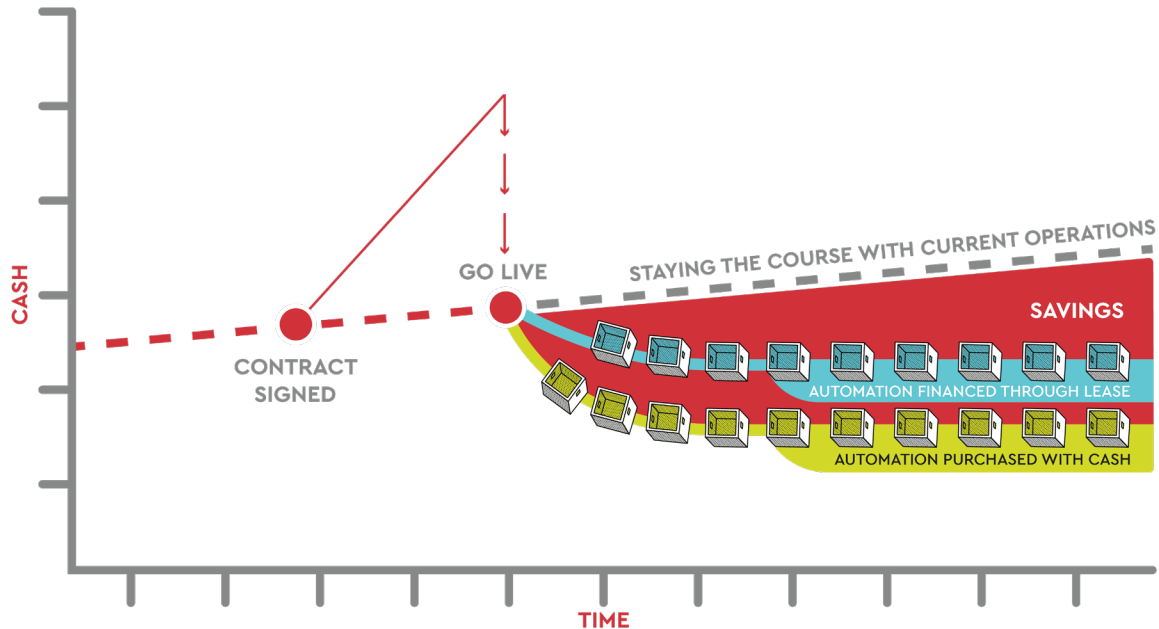
The easiest way to distill all these options down is to look at the pros and cons of owning vs. leasing.

- On the owning side, the biggest benefits include full control for expanding, reducing, and/or selling later—plus the potential for the lowest total cost of ownership over the life of use.
- On the leasing side, the biggest benefits are not tying up cash in an initial investment (allowing it to be invested in other short-term, high-return investments), matching the timing of expenditure to the benefit period, and the potential for the highest NPV and IRR over the life of use.



Both owning and leasing are better options than not investing in automation, because they will both realize operational savings. Ultimately, the decision boils down to the availability of cash, perceived risk/reward of investment, and current financial strategy. For finance teams that prioritize Net Present Value, IRR, and payback period, leasing can be a highly attractive avenue. While those that place a greater weight on total cost of ownership and asset future flexibility may prefer owning through an upfront cash expenditure.

## THIS GRAPH SHOWS ON A HIGH-LEVEL THE CASH IMPLICATIONS OVER TIME FOR LEASING VS. OWNING:



### 3 GET FINANCE IN ON THE CONVERSATIONS EARLY AND OFTEN

To win over your finance team and generate their buy-in for automation, involve them early and often in the conversation.

Before you head too far down in the RFP and vetting process, make sure you talk to Finance and learn:

- What is the Hurdle Rate they use?
- How do they prioritize NPV, IRR, total cost of ownership, etc.?
- What is a reasonable overall budget based on current cash availability?
- What financial concerns do they have around warehouse automation?

All of this information will be helpful later when you work on developing and vetting different automation proposals. Anything that doesn't consider or meet the financial "must haves" should be eliminated.

Later on in the developing and vetting process, it will become clearer the real savings that will be realized from each design proposal. It's at this point that you'll want to sit down with Finance again to craft a cash flow model and ensure their buy-in on the value of warehouse automation. Some factors to consider, based on our experience with our customers:

- Savings in labor costs
- Savings in employee turnover and related training costs
- Savings in operational costs due to faster order processing
- Savings in returns and QA due to increased order accuracy
- Savings from consolidation of warehouse buildings
- Capital gains from selling obsolete or no-longer-needed warehouse equipment



By involving your finance team early and often, you should successfully avoid any last-minute surprises about the cost of investment or the company's willingness and ability to fund the investment.

# 4 FIND THE RIGHT PARTNER(S) TO MAKE IT HAPPEN

The final linchpin to getting the signatures you need is to make sure you select the right automation solution—and of course the right partner(s) to pull the whole thing off.

When it comes to the warehouse automation provider and/or integrator you'll partner with, make sure they will design their solution around your unique operational situation and financial metrics. At TGW Logistics, we support our customers by providing quick feedback on budget vs. solution sizing and optimize our automation solutions to hit financial targets. We can also work alongside customer teams to present internal financial justifications.

If you're going down the road of financing, take the time to properly investigate and vet the different types of companies available and their lease terms and interest rates. While we at TGW cannot offer financing, we have strong relationships with three different types of financial partners we can connect you to:

- **Builder:** a full turnkey general contractor that would finance the construction of the building and automation, then lease it back.
- **Private equity:** using the general contractor of your choice, a firm that would finance the construction of the building and automation, then lease it back.
- **Financial institution:** a company that would facilitate a lease for only the automation.

Whoever you decide to work with on your automation journey must be willing and able to engage with you on both technical and financial topics. Only then can you be confident that they understand your full business case and will ensure that your company funds the warehouse automation you need for future success.

**Would you like to see some financial models for what owning vs. leasing could mean for your business? Curious to know the typical payback period for our customers? Want to talk warehouse automation?**



**SCAN THE QR CODE  
AND CONTACT US.**

