

GROUP PROJECTS

CASE 10: SHOULD I BUY OR SHOULD I LEASE?

Decision Support Systems

A leading supplier of grapes to the wine-producing industry in California, On the Vine Grapes, wants to expand its delivery services and expand its reach to market by increasing its current fleet of delivery trucks. Some of the older vehicles were acquired through closed-end leases with required down payments, mileage restrictions, and hefty early-termination penalties. Other vehicles were purchased using traditional purchase-to-own loans, which often resulted in high depreciation costs and large maintenance fees. All vehicles were acquired one at a time through local dealers.

On the Vine Grapes has asked you to assist in developing a lease/buy cost analysis worksheet in order to make the most cost-effective decision. Currently the director of operations, Bill Smith, has identified a 2004 Ford F-550 4×2 SD Super Cab 161.8 in, WB DRW HD XLT as the truck of choice for the business. This vehicle has a retail price of \$34,997 or a lease price of \$600/month through Ford Motor Credit Company.

Here are some basic fees and costs that you need to factor in:

1. Lease Costs

Refundable security deposit	\$500
First month's payment at inception	\$500
Other initial costs	\$125
Monthly lease payment for remaining term	\$600
Last month payment in advance	No
Allowable annual mileage	15,000
Estimated annual miles to be driven	20,000
Per-kilometre charge for excess kilometres	0.10

2. Purchase Costs

Retail price including sales taxes, title	\$34,997
Down payment	\$4000
Loan interest rate	8.75%
Will interest be deductible business or home equity interest?	Yes
Is the gross loaded weight of the vehicle over 2700 kilograms?	Yes

3. Common Costs and Assumptions

Total lease/loan term	36
Discount percent	8.75
Tax bracket—combined federal and state	33%
Business use percentage	100%

Some Particulars You Should Know

1. In the file BUYORLEASE.xls is a template you can use to enter the information above. There is also a sheet that has been developed to assist you with the annual depreciation for an automobile.
2. Create a detailed summary sheet of the lease/buy option for On the Vine Grapes.
3. File: BUYORLEASE.xls (Excel file).