Investing in New Equipment for Your Small Business

Vložil DevonGray - 03/11/2026 16:04

Buying new equipment for a small business is one of those decisions that can be exciting and intimidating at the same time. On one hand, better machinery or tools can increase productivity, improve service quality, and help attract customers. On the other, spending thousands of dollars upfront can leave a business financially exposed, especially when regular operating expenses don't disappear just because you've made an investment. A friend who runs a small woodworking business in Ontario recently faced this dilemma. His workshop had been getting more custom furniture orders, but the older cutting equipment was slowing production. Replacing it with a modern machine would allow him to complete projects faster and potentially accept larger contracts. Unfortunately, the equipment cost was close to $18,000, which represented a significant portion of his available savings. His initial instinct was to purchase it outright to avoid paying interest. However, after reviewing his monthly expenses, he realized that using most of his cash reserves could create problems if customers delayed payments or another machine needed repairs. That led to a discussion about small business loans in Canada and whether financing equipment could actually be a more responsible choice than paying cash. I think borrowing for equipment can make sense when the purchase has a realistic connection to additional revenue or lower operating costs. For example, if a new machine allows a business to complete more orders each month, the resulting income might help cover the loan payments. The important part is being realistic about those projections. Expected growth isn't guaranteed, and purchasing expensive equipment doesn't automatically create customer demand. Leasing is another option I'd seriously consider. Instead of committing a large amount upfront, a business can spread equipment costs over a specified period. This may preserve working capital and provide flexibility when technology changes frequently. However, leasing agreements deserve careful examination. Depending on the contract, the total payments may exceed the purchase price, and there could be restrictions on maintenance, modifications, or early termination. It's also important to understand whether ownership transfers at the end. Buying refurbished equipment can be attractive as well. My friend found several used machines at considerably lower prices, although their maintenance histories varied. A lower purchase price means little if unexpected repairs interrupt production and create additional expenses. Personally, I'd compare the complete cost of each option rather than focusing only on monthly payments. For a loan, that means reviewing interest rates, repayment periods, administrative fees, and possible security requirements. For leasing, I'd examine the overall contract value and any end-of-term obligations. I'd also want to know how much cash would remain available after the purchase. A business still needs funds for payroll, materials, insurance, utilities, and unexpected problems. One useful exercise is calculating how many additional sales would be required to cover the equipment payment. If the business needs an unrealistic increase in orders just to break even, the investment might be premature. My friend eventually chose a refurbished machine with a warranty and financed only part of the purchase. That allowed him to improve production without exhausting his reserves.

==========