



Expect Delays When Ordering Plant and Equipment

Are you looking to grow your business and need additional plant and equipment to facilitate the growth? Is your existing equipment nearing the end of its useful life and in need of replacement?

It is now more important than ever to plan ahead. You will need to ensure that you allow adequate time to both secure the desired equipment and obtain finance approval for the purchase.

Why? While our daily lives in Australia are ever so slowly returning to normal the effects of the pandemic are still being felt in many industries.

Worldwide shortage of computer chips

The pandemic has created a demand and supply imbalance in the semiconductor market causing a crisis for many companies around the world.

Why has this occurred?

The supply of chips is constrained due to the closure of manufacturing facilities affected by the pandemic resulting in inventory levels being depleted. At the same time with more people at home, there was a significant increase in demand around the world for home computers, laptops and monitors. In the fourth quarter of 2020 computer sales had increased 26% over the previous year¹.

How is this relevant to my plant and equipment needs?

The automotive industry has been most impacted by the shortage. Modern cars have between 1,500 to 3,000 chips

within each car. This number is increasing as additional car features are added each year. As a result the supply of new motor vehicles is significantly constrained and is driving up the demand for second hand vehicles.

But the supply constraint is not limited to just computers and motor vehicles. Modern technology has worked its way into nearly all plant and equipment, including heavy machinery, printing presses, electronic conveyor belt systems, laundry machines and air-conditioning systems. Essentially anything that is automated is likely to have a chip in it. The effect is quite widespread.

The result

Many plant and equipment items will have long order lead times creating a need to be ordered well in advance of their physical requirement.

Lender approval times

Prior to the pandemic, lenders generally provided loan approval within a few days. Initially, post pandemic, these approval times extended to a few weeks due to bottlenecks in the approval process².

Why the delay?

There are a few reasons for the delay with some of these now starting to show signs of improvement:

- Like many of us, bank employees were also working from home, causing inefficiencies in the approval process – although this impact should start to ease

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- The closure of offshore processing facilities located in countries more heavily impacted by the pandemic than ours
- A renewed focus by regulators on anti-money laundering obligations has also added to processing times.

However, approval decisions have now started to approach pre-pandemic timeframes, with delays now potentially being from a few days to an extra week, depending on the size of the loan.

No matter how long the delay, you do not want to be in a position of waiting too long to hear that your application is not approved and having to start the process again with another lender.

The answer

Don't leave everything to the last minute and seek professional advice.

Plan both the sourcing of your equipment needs and the financing options well ahead of time. Start preparing now for your finance application. Download our loan application guide *Preparing for Your Equipment Finance Needs* and be one step ahead.

You cannot start the process too early but you can definitely start too late.

As a business owner it might be prudent to start with regular reviews of the plant and equipment utilised in your business and assessing the realistic life cycle of each item. You will then be in a position to be well informed of likely future equipment needs before it is too late.

This should afford you an adequate lead time for equipment to be available for your business allowing for the current delays.

We recommend seeking professional advice on preparing your business loan application to ensure a successful outcome.

Remember to contact us to read our topic sheet **'Preparing For Your Equipment Finance Needs'**



1. [Wikipedia 2020-2021 Global Chip Shortage](#).
2. [afr.com/companies/financial-services/business-loan-approval-times-blown-to-bits-20210519-p57t61](#)