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The Case for IT Leasing

TO LEASE OR NOT TO LEASE? That's the question facing many IT executives today as they grapple with justifying the expense of technology investments.

All indications are that corporate capital commitments are on the upswing, especially in the area of IT purchases. With interest rates rivaling those of the 1960s, there's a strong temptation to buy new hardware and software. But how wise is it to *purchase* the new technology?

Rapid obsolescence of technology is a serious problem, especially for companies that have a strategic need to keep pace with changing technology. Such large capital expenditures require a major cost-justification effort and make it harder for companies to conserve working capital.

When a business purchases computer equipment, the typical financial assumption is that the equipment has a five-year life span. It becomes a capital asset of the company that depreciates in value over the five-year period. After three years, 40% of the equipment's value is still on the company's books, but there's little technological value left in it. This value gap is the key reason for interest in IT leasing.

Operating leases are quite attractive for IT because they treat computer hardware and software as expense items, like a company does for commodities such as disks and printer paper. The short-term monthly cost of IT leasing is always significantly less than that of borrowing the money to buy the equipment. For the same computers worth the same amount, over the same term and for the same down payment, monthly lease

expenses will be 30% to 60% lower than loan payments, even at today's best interest rates.

During the first three to five years of the equipment's life, the overall cost of leasing compared with buying is approximately the same, assuming the financing deal in each case runs the same length of time *and* the company sells the equipment at the end of the loan.

Some lease-vs.-buy comparisons show that buying costs slightly less than leasing does, but this is based on the bad assumption that purchased equipment will return full market value if it's sold or traded at the end of the loan.

While there is a secondary market for used computer equipment — just look on eBay — it takes time and effort to obtain full market value when disposing of computers by the hundreds or thousands. The hassles of managing obsolescence and disposal will make leasing seem a lot more favorable. The leasing company assumes both risks.

The CIO should look for a properly structured leasing program that offers more than just cash-flow benefits and technology risk avoidance. A key feature of such a program

is effective asset management. The leasing company owns the equipment and is responsible for maintaining the physical inventory for each piece of equipment on lease, including a description, serial number, asset tag number, acceptance date, installed location and lease termination date. It also collects and pays sales taxes, use taxes and/or property taxes based on where the equipment is located.

Leasing programs can be very creative and customized. A typical program involves a master lease with schedules that permit timed acquisition of equipment from multiple vendors. The phased acquisition could be especially useful for, say, a gradual rollout of point-of-sale systems at hundreds of outlets around the country. Some leasing programs also incorporate a lease line of credit that lets the CIO add hardware and software as needed and incorporate them into the program.

From a return-on-investment perspective, the CIO can also use a master lease to fix per-seat costs on an ongoing basis. This allows the CIO to keep the company at an appropriate level of technology for a predictable monthly cost that can be budgeted in advance. Also, services can be bundled into monthly lease payments. The master lease can cover upfront consulting and training costs, as well as those for monthly support and maintenance.

For CIOs who are convinced that hardware and software are commodities rather than capital assets, leasing makes more sense than ever. And the flexible and customized leasing options available today make it an even more attractive alternative. 