

WRITTEN BY ELIZABETH MILLARD ★ PHOTOGRAPH BY ERIK RANK

The Leasing Equation

Renting isn't just for cars and houses—
the strategy can give a company an edge with IT equipment.



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WHEN SCOTT TESTA surveys his new data center, he’s confident that the equipment is state-of-the-art, that support is at the ready, and that he can upgrade components without much expense or hassle. He also knows that not one single piece of hardware is owned by the company.

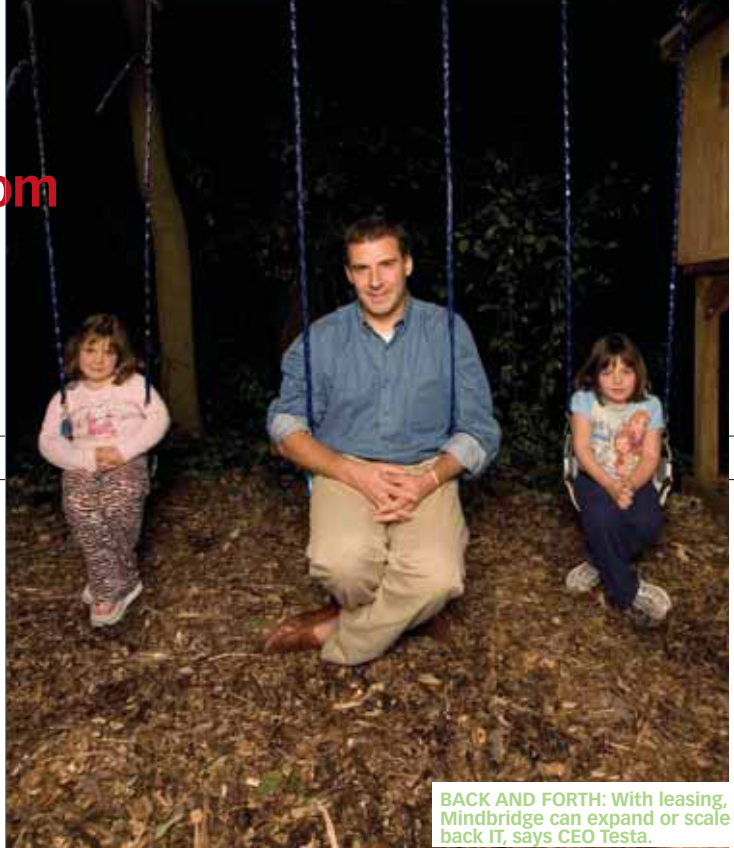
As president and CEO of Mindbridge Software, Testa had been watching the company’s IT needs escalate, but he was loathe to keep pouring thousands of dollars into frequent upgrade cycles. Then, early this year, Testa switched to a leasing strategy. As a result, Mindbridge was able to put in an entirely new data center—from switches and racks to storage arrays—for a set monthly cost, rather than shelling out one giant upfront expenditure.

“Leasing made sense for us for a number of reasons,” says Testa, in Norristown, PA. “Mainly, it made financial sense because we didn’t want to have to pay over \$100,000 for equipment and then have to start upgrading next year. Also, there’s much more room for negotiation with vendors when you’re considering leasing instead of buying.”

With budgets still stretched tight and hardware upgrade cycles getting shorter, many SMBs, like Mindbridge, have been looking for ways to get the latest equipment without draining the IT kitty. With a leasing strategy, companies can not only make their IT money go further, but can often create tailored environments. Because a third-party lease deal often includes support for multiple kinds of equipment, a company can create a heterogeneous environment without the hassle of having separate support agreements for each component.

Leasing can also be a valuable strategy for addressing the computing needs of a company at various times in its growth cycle. Mindbridge’s Testa, for example, knew he had an immediate need for a fresh data center, but over time, things could change, requiring him to expand further or potentially scale back. With a leasing approach, Testa is comforted in knowing he can do either with minimal to no financial risk.

Despite these benefits, most SMBs haven’t yet embraced leasing. According to research firm Gartner Inc., only 3% of SMBs lease all of their PCs,



BACK AND FORTH: With leasing, Mindbridge can expand or scale back IT, says CEO Testa.

and 12% lease about half of their desktops. But with the pace of technology, leasing is a strategy that should be considered more often, says Ralph Petta, vice president of industry services for the Equipment Leasing Association. “Equipment is becoming more and more advanced, and the obsolescence factor is accelerating,” Petta notes. The rate of obsolescence is also having its effect on leasing agreements, letting companies lock into a contract for a shorter period of time.

Leasing can also be beneficial given the rate of lost value that comes with IT assets. Computers and other IT hardware begin to decline as soon as the box is opened. Leasing can be a valuable way to avoid having equipment that’s significantly decreased in worth, says Anita Lind, president

Pros vs. Cons of Leasing

PROS:

- Frequent technology upgrades
- Training and support
- Competitive rates
- No equipment disposal hassles
- Usually no down payment or upfront expenditure required

CONS:

- Not as much tax benefit compared to buying
- More effort and time in shopping for vendors
- Limited ability to swap out equipment or take advantage of sales

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of Rush City, MN-based transition management consultancy Maxxum.

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Companies can negotiate what happens at the end of a lease term as well, allowing them to buy the equipment at a special rate, offer desktops and laptops to employees in a purchasing program, or simply have the equipment taken away by the leasing firm and potentially replaced by new assets.

For companies that have limited cash flow, leasing can also provide an opportunity to get thousands of dollars of equipment without having to make an upfront payment or take out a loan. Thanks to the increasing competition in the marketplace among technology vendors and leasing firms, many times, no down payment is required, says R.J. Grimshaw, director of IT financing at Superior, CO-based Key Equipment Finance.

“Banks will typically ask for at least 20% down,” he says. “Also, banks don’t include many of the other, intangible assets that come with leasing like support.” Grimshaw notes that lessors will blend together training, installation, support services, and even software into a package for customers, but with a bank loan, a company has to negotiate such items separately with vendors.

Because of the financial and technological flexibility that comes with leasing, Grimshaw sees more SMBs gravitating toward large-scale leasing in the same way that Mindbridge filled its data center. “There’s education and awareness around the benefits of leasing,” Grimshaw says. “If SMBs have a good grasp of finances, goals, and technology usage, leasing can be very advantageous.”

As valuable as leasing can be, there are situations when the tactic would be less effective for a company. Usually, it comes down to taxes and cash flow. A “cash rich” company is more likely to buy equipment, says Petta, because it works out better for their year-end balance sheet.

Another factor to consider is the time it takes

for vendor negotiation and contract tweaks. Most technology vendors have boilerplate purchase agreements, but because leasing can be done by manufacturers, technology retailers, or independent leasing agencies, more effort has to be put into finding a good match for the company.

“Whenever there’s a misunderstanding or unhappiness with leasing, it’s invariably because a company hasn’t reviewed the documents carefully enough,” Petta believes.

Companies could find themselves locked into a lease that’s too long for their goals or too expensive for what they’re getting. They could also be stuck without support, and without a clear indication of what happens after the lease — potentially opening themselves up to charges for equipment that has a few dents.

By putting in the time and developing some negotiation proficiency, a company could get a spiffy new data center, or even just some desktops, and still have money left in the IT budget. “Now that companies understand the advantages of leasing, they can use the strategy to keep their IT assets fresh,” says Petta.

Elizabeth Millard is a freelance writer who specializes in business and technology topics.

Before You Sign...

Must-have elements for a good leasing contract:

1. Clarity about upgrades: If technology improves, make sure your equipment will be refreshed.
2. A description of what software, if any, will be included and how it will be supported.
3. How technical problems will be handled, and at what point equipment will be replaced rather than fixed.
4. End-of-lease details that include costs for cosmetically damaged equipment, how equipment will be removed, and whether you have the option to buy.