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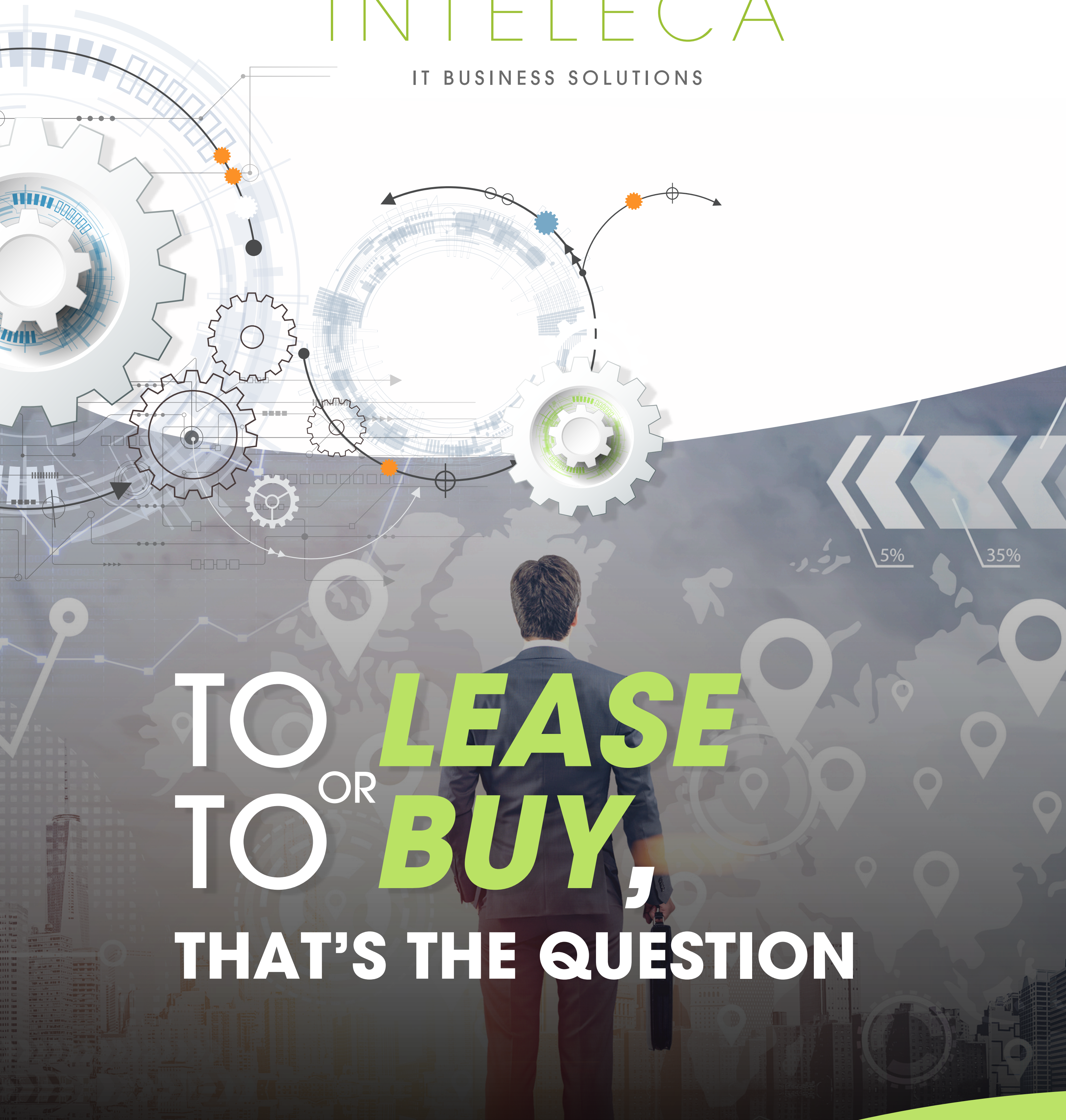
IT BUSINESS SOLUTIONS



TO LEASE OR TO BUY, THAT'S THE QUESTION

Phone: +1.404.961.1152 | info@inteleca.com

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Like many things in our highly advanced technological world, things quickly go out of fashion. And although leasing isn't necessarily something that one would consider fashion, it's maintained its place as a viable and valuable alternative to buying.

The complexity and confusion around leasing or buying is considerable. At one time, you could only lease new IT equipment, today you can lease both new and refurbished, turning leasing into an even more viable option. You must consider such aspects as whether the asset is worth refurbishing, worth selling and buying new, or leasing. Furthermore, you must also correctly calculate the value of your assets whether it's depreciating IT assets, calculating residual value on equipment coming back off lease, or estimating an expected residual value at the beginning of a lease term or at any point during the lease.

At this time, the most important question facing your organization is: How do you fit the technology purchase into your budget? To make the right decision, many other questions need to be answered: What are the tax implications of leasing versus buying? Is it for the short term or long term? Do you want a fast turnaround? What is the best fit for your needs, new or refurbished? How often does the technology change, is it going to be out of date sooner rather than later?

Along with answering these key questions, there are advantages and disadvantages to both leasing and buying that you need to consider. So let's take a look at some of these.

ADVANTAGES & DISADVANTAGES

Leasing: *Advantages*

1. **Upfront costs minimal** – As a down payment, anticipate first and last month (or quarter) of the lease payments. Basically, you have the latest equipment at a low cost as the leasing company buys the equipment and carries the expense, and applies your lease payment toward the purchase. As an OpEx item that you pay on a pre-determined schedule, you save money for bottom line revenue-producing initiatives.

2. **Appropriate level of technology for intended use** – When you lease a car, you are always prepared for the day when your favorite automaker unveils a new and redesigned vehicle. You're always current, driving the latest generation carrying the latest technology. Like our cars, IT equipment eventually becomes out of date and obsolete. When you lease, you can quickly take advantage of technological advances, with minimal financial impact or risk.

3. **Monthly or quarterly fee fixed** – Leasing means you have an agreed upon monthly line item, or quarterly. It's much easier to budget for fixed expenses than for a variable expense or discretionary expense.

4. **Competitive edge maintained** – With leasing, you don't have to wait long to upgrade or take advantage of new technologies, which boosts productivity and gives you immediate access to the latest tools—in a buying scenario these might be too expensive. Thus, you can maintain a competitive edge technologically without reducing your financial resources.

5. **Payment options that offer flexibility** – Leasing gives you that. When you negotiate your lease agreement you can secure an agreement that fits your budget and your operating requirements.

Leasing: *Disadvantages*

1. **More expensive long term** – Although you enjoyed a low upfront cost and pay less than the initial cost of the equipment at the end of the contract, you still have to factor in your monthly or quarterly payments, interest rates, and other fees. If not included as part of your operating costs, then you'll find that leasing in the long term costs the company more than if it purchased the equipment outright. Even so, much depends on the agreement you have with the leasing company.

2. **Paying for shut-down equipment** – This is only a disadvantage if your lease terms are such that you have to make payments throughout the entire lease period—even when the equipment is no longer viable because of business or operational shifts.

3. **Challenging to move from OpEx to CapEx** – Most of the C-level suite prefer the tax benefits and stability of CapEx expenditures, as opposed to fluctuating monthly or quarterly payments.

Buying: *Advantages*

1. **IT equipment tax deductible** – This is one of the great advantages of purchasing new equipment as, depending on where you operate, you can either deduct the full cost of the new asset, you can deduct the depreciation costs of the new asset over a period of several years, or you can amortize the cost over the lifespan of the equipment. With the majority of leases, you can only deduct the monthly payment.

2. **Ownership delivers control** – When you buy, ownership gives you full control over the asset's use, location, and disposition. As well, you have to consider that new assets add to the value of all the company's tangible assets and overall net worth.

3. **Maintenance in your control** – In many instances when you lease, you must maintain equipment following the leasing agreement specifications. This can be more expensive, especially when you consider that you're maintaining the equipment for the leasing company, which has a vested interest in its condition. When you purchase outright, you determine the maintenance schedule based on your timeframe and operational requirements.

Buying: *Disadvantages*

1. **Upfront costs major outlay** – While your upfront leasing costs are minimal and don't tie up your funds, a capital purchase means you must pay the total cost of the equipment upfront, tying up funds that could otherwise be channeled into revenue-generating projects.

2. **Sliding down the technology curve** – Eventually, technology advances lead to outdated equipment that must be refreshed periodically to maintain its usefulness and to extend its ROI.

3. **Delayed delivery on capital items** – It takes time to make a decision on what to buy, forecast costs against your budget, and so on, and to finally guide it through the approval process. It can be a slow process that will delay the delivery and installation of your equipment.

Valuation

To ensure you correctly calculate the value of your IT assets, it's essential you choose the right service provider. A provider who has comprehensive solutions and services that can meet all your requirements whether it's making a decision on leasing versus buying, calculating the residual value on equipment coming back off lease, evaluating refreshed equipment, estimating an expected residual value at the beginning of a lease term or at any point during the lease. And a provider who can sell and buy your IT equipment for you.

When you work with the right service provider, you'll avoid understating or overstating total expenses while correctly reporting assets at their net book value. In addition, a service provider who can sell your IT equipment will free you from the complexity of the process, while helping you meet your IT equipment and cash flow requirements.

More importantly, the right service provider can work with you on the thorny question of whether to lease or buy—a critical decision that will reverberate throughout your organization. Such a provider can be an indispensable, ongoing resource for your organization.

About Inteleca

As a global provider of IT Business Solutions, Inteleca has become a trusted partner in providing enterprise organizations with infrastructure and architecture design, hardware procurement, and maintenance services, excelling in the design of vendor-neutral solutions—as well as cutting-edge Optical Networking Solutions.