

STABILIZING IT EXPENDITURES WHILE MAXIMIZING PRODUCTIVITY

by Alan Sikora, Vice President

All organizations rely on up-to-date technology to run their businesses and stay competitive. IT managers invest significant time in planning systems acquisitions and upgrades to meet the organization's changing needs. However, they often fail to consider the impact of the acquisition method on the organization.

The limitations of purchasing

Purchasing IT equipment is essentially a commitment to long-term use of a particular technology. However, given the rapid evolution of technology, projecting the useful lifespan of IT assets is often difficult at the time of acquisition. Companies that purchase IT equipment often find themselves saddled with aging and/or obsolete equipment. As these assets approach the end of their useful life, the costs associated with hardware maintenance, operating system upgrades, and internal support escalate. As IT struggles to keep systems running with patches and workarounds, downtime and user complaints increase.

Replacing obsolete IT equipment by direct purchase is also a significant expense that typically requires detailed capital expenditure documentation and financial rationales. Preferring to avoid a large cash outlay, management may delay approval and implementation of the project. Such delays exacerbate the challenges of maintaining the old equipment. Lost opportunity costs also begin to rise as the IT department becomes so burdened with maintaining existing systems that they cannot implement forward looking projects.

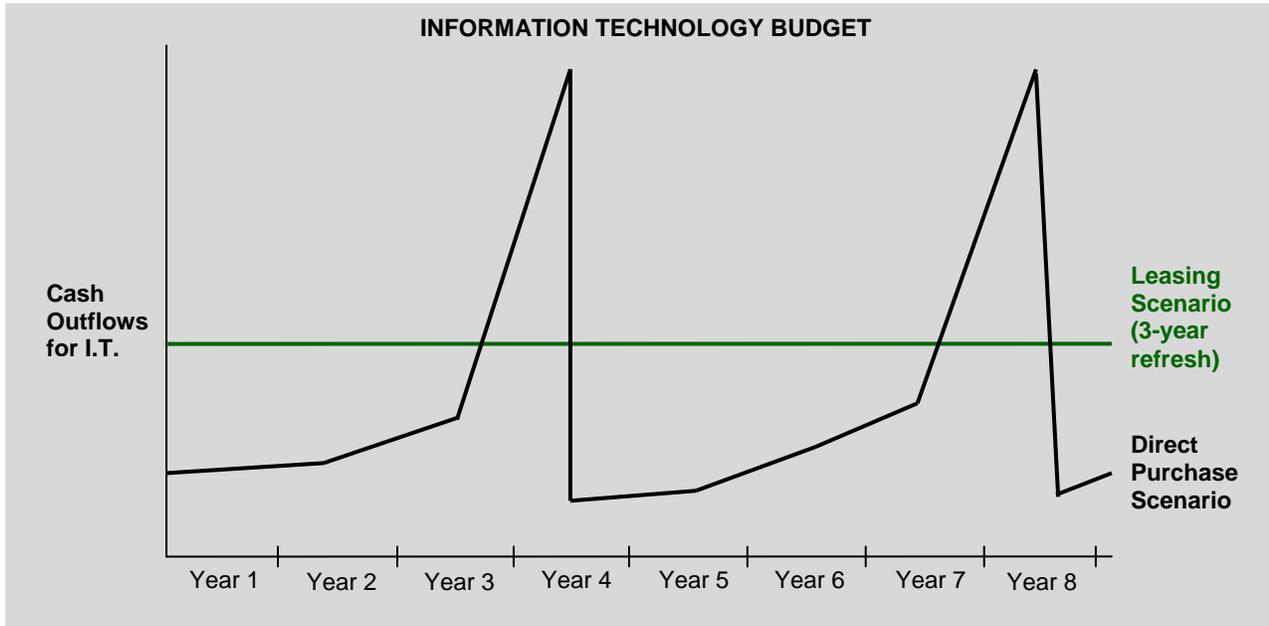
A better way to acquire IT equipment

Leasing enables companies to acquire needed equipment without large cash outlays. Equipment is rented from the leasing company with consistent, fixed-rate monthly payments for an appropriate term (often 36 months for technology equipment). Most organizations account for the monthly payments as operating expenses.

When the lease reaches maturity, the organization has several disposal options. They can return the equipment to the leasing company, continue to rent the equipment, or purchase the equipment. If the company elects to return the equipment, they can often acquire new technology without affecting the monthly operating expense.

As shown in Figure 1, leasing IT equipment eliminates both capital expenditure spikes and creeping maintenance costs, while ensuring that the organization has leading-edge technology to support its goals and objectives.

Figure 1



The disciplined refresh strategy of leasing can also improve interdepartmental interactions and corporate culture. Because equipment acquisitions have pre-determined time horizons, IT managers can reliably schedule system upgrades and new application rollouts. The organization no longer perceives IT as unreliable and chronically behind schedule and instead begins to view the IT department as partners in improving productivity.

Furthermore, instead of devoting finite resources to fighting for capital appropriations, IT managers can focus on improving IT usage and efficiency. According to Scott Lowe, Chief Information Officer at Westminster College, "By implementing a leasing program instead of having a direct purchase, we've been able to stabilize the budget, give it a nice smooth feel, so that people don't feel like IT is always coming to the well asking for more."

The bottom line

Leasing enables companies to maximize both their IT operations and their budget. For more information about how leasing can help your organization, contact First American Equipment Finance.

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