

## WHITE PAPER

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# IT Leasing and Financing: Financial and Operational Factors To Consider

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## IDC OPINION

In today's volatile economic climate, many IT organizations, striving to balance the need to invest in new information technology (IT) equipment and software with their organization's goal of minimizing capital spending, are again shifting to leasing and financing their new acquisitions. IDC believes that in many situations, technology leasing/financing IT resources offers strategic, operational and financial benefits compared with outright ownership. By 2010, IDC predicts that the worldwide market for IT leasing and financing will grow to exceed \$100 billion.

A 2008 IDC survey of 153 IT organizations that lease/finance their IT equipment found that more than 70% of them reported the benefits associated with leasing/financing were: aids in protection against obsolescence, a means to balance project cost with benefits, a faster approval process, budget flexibility and equipment disposal/decommissioning services.

Many organizations are facing a challenging economy beset with currency fluctuations, high commodity prices and intensifying, global, competitive pressures. To meet these challenges, they are looking to fund innovation efforts to grow revenue, restructure operational processes to improve efficiency, and improve financial performance by rooting out any and all unnecessary expense. Given these circumstances, it is understandable that they are seeking and utilizing other ways of acquiring needed resources without using cash reserves or drawing down bank credit lines. Increasingly, both IT organizations and the business units they support, are leasing and financing important segments of their IT infrastructure including PCs and laptop devices both to achieve additional financial flexibility and improved operational effectiveness.

In this IDC White Paper, we present two key findings:

- ☒ Lease-versus-buy evaluation routines, required by many companies, remain a "spreadsheet" exercise that attempts to measure small differences in capital cost while glossing over inconsistencies in planned life cycles, related maintenance and support costs, and decommissioning/recycling requirements which potentially distort operating expenses – and the outcome of the analysis.
  
- ☒ IT organizations may be incurring operating costs as much as 20.5% higher than necessary to acquire, manage and decommission their desktop and notebook

PC equipment when comparing tightly managed three-year life cycles with less systematic, longer-span life cycle management strategies.

## **SITUATION OVERVIEW**

Although they seem commonplace today, company-wide Enterprise Resource Planning (ERP) systems and web-enabled business models are less-than fifteen years old. Despite the relative newness of broadly based IT infrastructure and business functionality it delivers, many of us have come to take the technology for granted. As individuals, we often tend to think about IT innovation through the prism of the individual applications and systems we use.

In reality, continuous improvements in core, underlying information technologies (fast chips and higher density storage), more efficient equipment packaging designs (blade servers), operating system innovation (virtualization, grid and cloud computing); new software architectures (AJAX); new IT management practices (service management and ITIL); burgeoning compliance and security requirements; and an expanding means to access and share all this information (IM, wireless, cellular, social networks) continue to present both IT and business managers with an expanding range of options to better enable business processes, improve business operational effectiveness and further leverage the IT operation's budget.

At the dawn of the computing era, we conceptualized IT as a computer, an operating system and an application all providing service to one or more end-users. In today's rapidly advancing IT infrastructures a complex, highly-integrated system of real and virtual servers and storage, high-speed networks and perhaps multiple datacenters delivering very high-levels availability for numerous end-users who may be employees, suppliers or customers is rapidly becoming the norm.

Measuring, managing and funding this increasingly complex thicket of equipment, software and services has emerged as a major challenge for many organizations. Businesses strive to invest their capital in ways that deliver a measurable return – a new product, an advertising campaign or to fund a geographic expansion. Securing approval for investments in back-office capabilities such as IT, however valuable, are often more problematic. IT equipment, with its relatively short useful life, must regularly be replaced and expanded creating frustration for both business and financial managers with the seemingly endless requests for additional investment.

As a means of coping with the financial stress of funding these periodic investments, independent financial services companies, banks and then IT manufacturers themselves developed technology leasing and financing options to help their customers acquire technology virtually from the inception of the industry. In 2007, for example, over \$80 billion of IT equipment, software and services was leased or financed worldwide. In the U.S., Japan and major E.U. countries 14% to 18% of all IT equipment involves some type of lease/financing. Another measure of how important the availability of IT leasing and financing has become to IT organizations, a 2008 IDC survey of 203 IT organizations found that 52% of them reported that the availability of IT leasing and financing options affects which IT supplier is selected.

Before examining the benefits IT organizations reported that they derived by lease/financing their IT equipment, we need to review the two most common types of leasing options.

Lease Options. Although there are many variations of lease/financing options available, IT organizations should be familiar with two general types leases: the full payout lease (sometimes called a \$1 purchase option lease) and the fair market value (FMV) lease. The lease/financing option selected is based on the IT organization's plans for the technology involved.

- ☒ A full payout lease is similar to a loan used for an automobile purchase or a home mortgage. The present value of the payments is equal to the purchase price. Options at the end of the lease typically include returning the equipment or purchasing it – often for the aforementioned price of \$1. For IT organizations, this type of structure is well-suited to situations where future ownership is desired, the planned deployed life exceeds four (or more) years and maximum flexibility is desired matching future benefits with future costs. Often, SMB or middle-market companies utilize this type of financing option for strategic IT upgrades or systems acquisitions that are planned to elevate core capabilities. For these types of initiatives where technology ownership is an important goal, this option is well suited. In addition, this option is also used extensively for financing software licensing fees and professional and IT services rendered.
  
- ☒ An FMV or fair market value purchase option lease, is like an extended rental program; i.e., more than a year in duration. At the end of the lease, options typically include 1) purchasing the equipment for its then fair market value, 2) extending the lease on a month-to-month or fixed-term basis or 3) returning the equipment to the leasing company. The present value of the initial payments is typically less than the purchase price. For IT organizations, this structure is well suited to situations where the equipment will be regularly replaced either because better technology is available or the equipment is worn. Leases for computer equipment, cars and trucks; and machinery are usually structured this way. Most leases for IT equipment involve an FMV lease due to the lower payments, the plan to regularly replace the equipment to help manage technology obsolescence and the benefit of not having to sell or dispose of older equipment at the end of the period.

## **WHY IT ORGANIZATIONS LEASE/FINANCE**

In a recent research project conducted during March 2008, IDC surveyed 203 companies about their experiences, their degree of satisfaction and related business outcomes when using leasing and financing to acquire and manage their IT resources. The survey included companies from 100 to more than 2,500 employees that are based in North America representing 12 different industries. These organizations provided us a wealth of feedback and the results were somewhat surprising. They were surprising because there was such a strong degree of agreement between the companies! Over 75% of the companies in the survey reported seven factors which they said provided "important" or "very important" benefits when leasing or financing their IT equipment. Because, IT managers and

financial managers often view the world from different perspective, we have grouped the benefits into "operational" and "financial" factors. Let's explore them in more detail:

## **Operational Factors**

**Protection against obsolescence.** Unlike many other types of capital equipment that can be long-lived, IT equipment is built around core technologies that continue to be replaced by more capable devices as often as every eighteen months. And while continuously increasing performance is interesting, perhaps more important to IT organizations is that each new generation of technology has more sophisticated management tools that make it easier to configure, manage and maintain. New devices are faster and then are usually much less expensive (time wise) to manage. These ongoing opportunities to improve efficiency are no doubt the key reason IT organizations rated the most important benefit of IT leasing/financing as "protection against obsolescence."

**Convenience.** When discussing IT, we often discuss the speed of the technology, but there are other considerations. The globally competitive business environment of the 21<sup>st</sup> century challenges organizations to do in days what was once done in weeks or months. IT organizations are no different. This requires an IT organization to rapidly provision, to rapidly respond and to faultlessly anticipate. For these reasons, an IT leasing and financing program that allows additional orders against a pre-established credit line significantly enhance the ability of the organization to respond – while simplifying paperwork – and creating new efficiencies through convenience.

**Fast approval process.** Over 75% of the organizations surveyed report that one of the major benefits of using an IT leasing and financing program was the fast approval process. This feedback from organizations using IT leasing and financing speaks to the process improvements many leasing/financing providers have implemented to streamline approval and funding of individual invoices once a financing program has been established.

**Proper equipment disposal.** The requirement to properly dispose of surplus equipment, both for ethical and regulatory reasons, has highlighted one of the potential benefits of leasing IT equipment – the opportunity to return it to the leasing/finance company – who, as legal owner of the equipment, shoulders full legal responsibility for its proper disposal.

## **Financial Factors**

**Balance project costs with benefits.** Most companies, public and private, use a type of accounting called accrual accounting. This accounting method measures the performance and position of a company by recognizing economic events regardless of when cash transactions occur. To help them better match expenses with benefits, over 80% of the companies surveyed reported that leasing their IT equipment better match project costs with benefits. Lease / financing options can be tailored to an IT organization's specific cash flow or budgetary requirements.

**Capital Conservation.** Regardless of an organization's size, one of the eternal challenges is the optimal use of its capital resources. Capital is the seed-corn of innovation. In times of economic stress, companies prefer to retain a larger capital reserve to fund unanticipated requirements. In IDC's survey, over 75% of IT organizations reported that one of the major benefits of IT lease / financing is that it enables conservation of capital.

**Bridge expense between budget years.** Establishing and managing an organization according to budgets is a sound and well-established financial management best practice. Despite this, the process has limitations. Budgets are often established three to six-months before the start of the new fiscal year, and, as a result, cannot fully anticipate business events. To improve financial flexibility, many organizations utilize lease / financing for their IT equipment. In the IDC survey, over 75% of organizations reported that one of the principal benefits of using lease / financing was the additional flexibility it created to manage when the expense of an acquisition was reported.

## **WHAT TO LOOK FOR IN A LEASE / FINANCING PROVIDER**

**Technology expertise.** There are material differences in the expected useful life of a desktop PC, the desk it sits upon and the building it resides in – vast differences in the procurement, configuration, maintenance, upgrade and decommissioning/disposal practices. Each of these practices creates implications for the lease / financing structure and provider. Different providers have unique IT infrastructures, underwriting practices and used equipment management practices, and have tuned their business models to optimize the delivery of certain types of lease / financing. When IT organizations select lease / financing providers, IDC recommends investing the time to understand their differing capabilities in structuring financing options for equipment, software and services, as well as the strength of their used equipment remarketing operations,

**Lease management services.** IT leasing and financing is much more than the ability to lend money at a favorable rate. When lease / financing IT equipment, software and services there are other considerations, especially when large numbers of individual pieces of equipment are involved. Does the vendor offer data wiping services, assistance with software license management and tracking of equipment serial numbers to support maintenance programs? Is there an Internet-enabled capability to manage different aspects of the transaction? What types of programs exist to simplify the acquisition and management of large numbers of PCs or laptops? Lease management services are an essential component of a successful leasing engagement because lease / financing involves an interface with many different business processes within a customer organization.

**Geographic coverage.** For the past ten years, the rising tide of globalization has created a golden age international trade, expansion and commerce. It has greatly expanded the middle class and expanded the lexicon to include terms like "emerging markets" and the "BRIC" countries (Brazil, Russia, India and China). For many organizations, it has created unprecedented new opportunity – and challenged them to expand their global reach. How quickly can the law office be opened in Shanghai,

China? By the old rules standard of months and weeks is often not good enough. Because virtually all business process is now enabled by IT, business cannot occur without IT being installed and functioning. To that end, careful evaluation of provider capabilities to support financing in major industrialized countries in North America, the EU or Japan is necessary. The bigger question is, often, what capability do you have in western China or Brazil. A select number of lease / financing providers have the capability to provide integrated, international business practices and processes; similar contracts and coordinated order management.

**Terms and conditions.** Lease / financing contracts contain common language regarding obligations, default, representations and warranties. For many IT organizations, the first reaction to a "contract" is to forward it to their attorney for review. And, while it is a sound business practice to involve such experts, the step many organizations miss is to clearly understand and assign "contract management" responsibilities embedded in the Terms and Conditions to members of their team. Most providers are somewhat flexible in areas such as end-of-lease options, renewal terms and return provisions. In some circumstances, the right to substitute identical equipment may be negotiated. Finally, it serves both parties well if key terms are carefully defined and examples of how values are determined are included.

**Administration and customer service.** IT lease / finance providers, due to the duration of the contracts (two, three or more years), are, by definition long-term service providers. Administrative processes, both within the provider and the IT organizations, require commitment, follow-through and investments – in people, process and technology. As the number of leased / financed assets increases, the complexity of successfully managing the service relationship grows concurrently. Therefore, a careful evaluation of the administrative infrastructure, online systems, tools and resources; and overall commitment to establishing and maintaining high levels of customer service form an integral part of a successful lease / financing engagement.

Although the preceding list is not exhaustive, it highlights major areas that IT organizations should consider before entering into a lease / financing relationship.

## **EVALUATING LEASE VERSUS BUY**

As part of the capital acquisition process, a comparison of equipment deployment scenarios is usually prepared; i.e., a "lease-versus-buy" evaluation. This analysis compares the cost of leasing the equipment with the cost of buying it and depreciating it. A nominal salvage value is usually assumed at the end of the comparative period (typically three years). Once the evaluation is complete, and the cost of two scenarios is compared, the results are often quite close. Minor differences in assumptions usually tip the balance to one scenario or the other.

The reality, however, can be quite different than a modeled scenario. In practice, IT equipment that is purchased may not be deployed for the standard three-year period even if the amortization is 36 months! Most companies "roll up" equipment purchased during the year and begin the amortization period on January 1 of the following year. Likewise, most organizations don't replace IT equipment the day the amortization is

completed - that is often the time they initiate the renewal process. Collectively, the two delays add 6-8 months to a typical 36-month life cycle. In most organizations, the amortization for IT equipment is 48 or 60 months. With delays, the amortization period for owned equipment can be double what was considered as part of the lease-versus-buy analysis.

This disconnect - the fact that the typical lease-versus-buy financial models usually compare a 36-month lease with a 36-month ownership cycle where the ownership cycle can be, in practice, 6-32 months longer - ignores the fact that IT maintenance and support costs, deployment/decommissioning expense, and actual upgrade experience are not factored appropriately. To better understand how these costs potentially impact IT equipment life-cycle analysis and affect technology life-cycle renewal cycles, let's first review how maintenance and support costs can vary based on length of time deployed.

Tables 1-3 present IDC survey data analyzing PC deployment processes. The research is based on interviews with 120 large enterprises (Median = 7,000 PCs) based in North America. Companies in this study represent over 20 major vertical markets, including government and education, with no single vertical accounting for more than 6% of interviewees.

***Maintenance and Support Costs***

Once IT equipment is installed, the obsolescence cycle begins. IDC research has found that IT support costs generally increase considerably calendar quarter by calendar quarter. These cost increases are driven by two key factors:

- ☒ mechanical failures as equipment ages; random errors in a system's software configuration as a result of power transients, user twiddling, or other factors;
- ☒ the (unbudgeted or unplanned for) cost of updating software configurations as other changes within the (internal or external) IT infrastructure trigger the need for the device to be reconfigured or changed or (more) new software installed.

A recent IDC analysis of 120 IT organizations' desktop support and maintenance costs demonstrates how the maintenance and support costs for a typical PC can vary as a function of the age of the device. Table 1 highlights the average annual expense.

**TABLE 1**

Average Annual PC Maintenance and Support Cost

| Period | Average Annual Cost |
|--------|---------------------|
| Year 1 | \$250               |
| Year 2 | \$350               |
| Year 3 | \$525               |
| Year 4 | \$650               |
| Year 5 | \$750               |
| Year 6 | \$800               |

Source: IDC, 2008

**Deployment and Decommissioning Costs**

Continuing with the analysis, the study analyzed the deployment and decommissioning costs and correlated them into a four-tier management model as shown in Table 2.

**TABLE 2**

Comparative Cost Analysis of PC Deployment and Decommissioning Models

| Managed Change Models | Description  | Average Deployment Cost | Average Decommissioning Cost |
|-----------------------|--|-------------------------|------------------------------|
| Basic                 | Ad hoc, decentralized  | \$ 678                  | \$ 200                       |
| Standardized          | Some standard practices, centralization                      | \$ 522                  | \$ 150                       |
| Rationalized          | Standard practices, centralized, integrated, some automation | \$ 426                  | \$ 100                       |
| Dynamic               | Highly automated   | \$ 260                  | \$ 50                        |

Source: IDC, 2008

**Key Findings:**

- ☒ When evaluating each of these managed-change models, IDC research found the most variation within organizations identified as using "basic" operational models and the least variation with organizations employing "dynamic" models. This occurs because well-run organizations can only be "so good." The deployment and decommissioning costs for the poorly managed organizations (i.e., "basic" operational models) varied more significantly.
- ☒ Organizations that established three-year life cycles and then systematically employed them clustered around the "dynamic" and "rationalized" management models realized lower average deployment and retirement costs

**Upgrade Experience**

During this IDC research study, we were unable to reliably measure the percentage of the portfolio that was upgraded. However, based on experiences with IT organizations, IDC's estimates are presented in Table 3.

**TABLE 3**

Estimated PC Upgrades by Years Deployed

| Period | Percentage of Portfolio Requiring Upgrade |
|--------|---|
| Year 1 | 5%  |
| Year 2 | 10%                                       |
| Year 3 | 10%                                       |
| Year 4 | 10%                                       |
| Year 5 | 15%                                       |
| Year 6 | 15%                                       |

Source: IDC, 2008

As presented in this study, the example of two generations of leased desktop PCs is 20.5% less expensive than buying and holding one machine for six years. This example was designed to highlight the potential impact of effective management of distributed computing environments. Key research conclusions:

- ☒ IDC believes that shorter average life cycles, crisp well-defined IT management practices, and disciplined IT equipment portfolio management produce the best results.
- ☒ For reasons identified within this study — overcoming organizational barriers to shorten equipment life cycles because of the reluctance to decommission equipment before the end of its original amortization period and shifting an organization from a dollop to a "continuous flow" capital management plan — leasing IT equipment can be a useful practice to facilitate this change.

## **FACTORING OPERATIONAL EXPENSE INTO LEASE VERSUS BUY ANALYSIS**

To provide an illustrative example, a \$600 desktop PC managed with "basic" deployment and decommissioning practices, and supported, maintained, and upgraded based on the values provided in Tables 1-3, is compared with a similar \$600 desktop PC that is leased and returned and then replaced with a \$565 PC for the second three-year deployment.

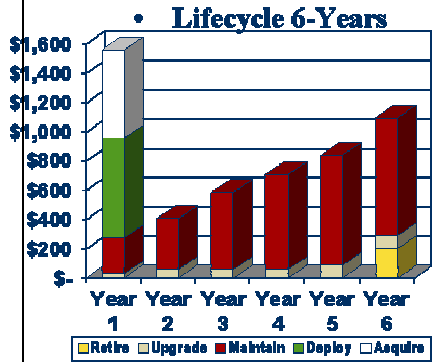
The analysis, which is designed to highlight differences between two capital management options and not be a definitive financial analysis, shows an average annual difference of 20.5% between the two PC life cycle management scenarios (see Figure 1).

PC maintenance and support costs were taken from Table 1. There is a material difference between the two scenarios because costs increase each year. For the six-year scenario, the costs included for each year are as portrayed in Table 1. In the scenario where each machine was replaced at the end of three years, the cost of maintenance disclosed during years 1-3 was included for each machine. Because the newer machines required less maintenance, the average annual cost for PC maintenance and support was \$375 during years 1-3.

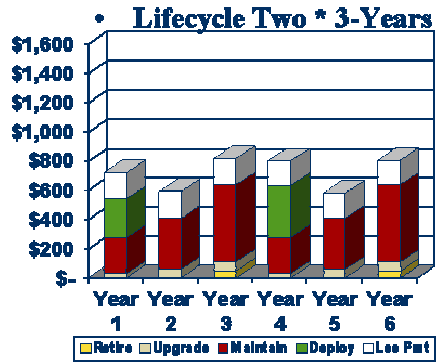
During years 4-6, the average cost increased more than 95% to \$733 annually. The point of this analysis is to highlight that lease-versus-buy analysis models should consider expected operational practices. For the purposes of financial analysis, there is always a desire to strive to isolate as many variables as possible to measure the "real" impact of the changed input. As this example highlights, the comparison of a programmed, cyclical replacement life-cycle management model implemented in a consistent manner with an ad hoc, largely situational replacement strategy demonstrates how operational expense factors can materially shift the outcome.

### **Figure 1**

Comparison of Average Annual Desktop Cost: A 6-Year Deployment Versus Two 3-Year Deployments



\$5,193 Total or \$866 Annually



\$4,310 Total or \$718 Annually

The underlying challenge with this type of financial analysis is that, for many organizations, there is a disconnect between modeled financial outcomes and operational practice. Therefore, the challenge of creating an optimum IT capital management plan is to accurately model financial alternatives whether they are buy or lease with realistic operational, financial, and technical assumptions. The outcome of this analysis suggests that overall expense can be reduced by shifting desktop PCs to shorter average deployment — in essence, as the famous Scottish economist Adam Smith might say, by trading more capital in the form of a shorter average desktop life cycle, IT organizations can reduce the related labor component and hence total cost.

## DELL FINANCIAL SERVICES AS A LEASE / FINANCING PROVIDER

Beyond financing, leasing companies have developed a suite of services to assist IT organizations in managing the logistics of equipment acquisition, installation and decommissioning/disposal. These services are in addition to a full suite of lease and financing structures for commercial, education, healthcare, and government organizations.

As a financial organization supporting a top-tier technology vendor with a broad base of customers ranging from large multinational corporations to small local businesses, Dell Financial Services (DFS) has an extended menu of offerings tailored to this diverse installed base. DFS offers a full suite of leasing and financing tools to its customers, leasing and financing Dell as well as non-Dell IT equipment and software.

**Technology expertise.** Dell and DFS work together to offer and enable the acquisition of the latest technology, helping their customers to take advantage of the most energy efficient and high-performing solutions available.

**Financial strength.** With approximately \$40 billion in lease/financing transactions since inception and \$6 billion of new transactions underwritten annually, DFS ranks as one of the top providers IT leasing and financial services worldwide.

**Lease management services.** Dell has a range of business units focused on providing this full range of services including DFS, Dell Asset Recovery Services and Dell Managed Services (maintenance). Dell's Asset Recovery Services was recently awarded IDC's G.R.A.D.E. approval, acknowledging its excellence in responsible recycling and disposal of e-waste. Specific to lease and asset management, DFS offers online services that provide a central repository for all contract and asset data where users can manage their leased assets.

**International scope.** DFS facilitates leasing solutions in over 40 countries throughout the world via in-country leasing partners.

**Contract flexibility.** DFS provides customers with a range of customizable lease/financing structures including payment deferral options, extended terms, and DFS' 4-Pay program.

**Administrative capability.** All DFS customers have direct access to their dedicated DFS account team. DFS and Dell offer fully integrated order processing and financing via online tools. A key feature of DFS's online services is the ability to run reports on all leased, received, and disposed assets, allowing customers greater transparency on their leased infrastructure and the ability to work better with internal accounting and regulatory organizations.

## CHALLENGES/OPPORTUNITIES

In our recent survey of IT organizations using IT leasing and financing, we asked the 203 respondents what aspects of the IT leasing / finance process presented challenges, and what aspects of the process could be improved. The survey participants provided many helpful and useful suggestions, but the majority of the feedback could be summarized into three major categories:

**More choices regarding the lease / financing structure.** While one of the major benefits associated with using lease/ financing to acquire IT resources is the flexibility to tailor the financial structure to map to the business / technology requirements. Many times, IT organizations fail to invest enough time and energy into mapping out their requirements, two or three years into the future. As a result, as the financial contract matures, it may not map well to the business situation causing a situation that might have been avoided

IDC believes that IT leasing and financing, and the related lease management service options, are much more than a series of financial offerings: they present a different way of "doing business" and challenge IT and business users to carefully consider the business requirements and complexities. Having this roadmap, this understanding of how the financing solution maps to the organization's business, financial and technical requirements can avoid extra work and unforeseen outcomes.

**Greater transparency into transactions costs.** A multi-year lease / financing program is not unlike a map with many roads. The original structure may anticipate leasing a turnkey system comprised of a server, storage and networking equipment,

pre-loaded with a suite of software, installed in 45 field offices across the 22 countries. At the end of the three year contract period, although it was anticipated everything would be replaced with new, upgraded equipment, the company might decide that some offices will be upgraded based on performance requirements, some of the equipment may be extended for another year, and some purchased. Without good planning and an evaluation of the financial scenarios at the onset of the transaction, the cost of this situation may not have been evaluated. The result is that, had the outcome been more thoroughly considered initially, a different lease / finance structure might have been put in place. This failure to reasonably consider multiple outcomes and scenarios; i.e., the organizational friction that realistically occurs, unanticipated outcomes occur. The natural tendency is to criticize a provider for not fully disclosing the cost when, in reality, the organization structuring the lease / financing program may not have fully considered multiple outcomes. IDC recommends that IT organizations considering a lease / financing option realistically evaluate what might happen at the end the initial lease term, and base their analyses accordingly. For example, instead of assuming that all the equipment will be promptly returned at the end of a lease, assume 70% or 80% will be returned on time, and the balance extended for three months. Test the plan by doing sensitivity analysis on multiple outcomes so that a clear understanding of the opportunities and risks exists.

**Terms and conditions.** Poorly negotiated terms and conditions may result in significant operational or financial consequences, either during the lease or when an unanticipated change is required. Some potential problem areas include the financial consequences of terms not defined in practical way, the need to restructure a lease / finance contract before the scheduled end of the contract or a higher-than-projected upgrade cost. In many cases, these issues are left intentionally vague by both parties, with difficult consequences. Careful attention to these areas can minimize or eliminate unexpected costs.

As with all major business decisions, a thorough understanding of the risks and their potential costs is most useful when undertaken during the negotiation phase of an acquisition rather than in crisis mode.

## CONCLUSION

Based on our recent surveys and ongoing interaction with IT organizations, IDC believes that many business, financial, and IT leaders have not fully recognized the continuing need and programmatic requirement for IT capital reinvestment, confusing necessary infrastructure expenditures with optional "upgrades." IT lease / financing options provide an important alternative to investment of business capital in IT equipment and software – relatively shortly lived assets.

For both IT providers and IT organizations, the intersection of products, technology, and detailed financial analysis can be a difficult place. Both communities tend to be staffed with individuals who can conceptualize technology solutions but may not have the fluency to prepare detailed financial analysis. In most organizations, the financial decisions are typically reviewed and vetted by functional experts in other functions – and at times creating friction and uncertainty.

In IDC's view, there are two important and over-riding concepts that should be kept top of mind when preparing technology life cycle analysis and the related lease-versus-buy proforma:

1. **The Cost of "Doing Nothing."** There is a real and rising tangible cost of "doing nothing" when comparing the technology acquisitions alternative to buy, lease or "do nothing." When reviewing financial analysis prepared by clients within our consulting practice at IDC, we consistently see the cost of "doing something" contrasted with the cost of "doing nothing." Invariably, the cost of doing nothing is linear out into infinity. In the case of IT equipment and software this is just not accurate. The incidence of failure directly increases as a function of age – age of technology – and age of the equipment. The documentation for this rising instance of failure can typically be found and substantiated from help-desk support records. IDC believes that accurately factoring in rising future costs will help business, financial and IT leaders make better decisions about technology renewal cycles.
2. **Value appropriately internal labor costs.** Some IT organizations and some IT professionals define their value proposition to their own organization as providing IT services and support at the absolutely lowest-cost possible. And, while this is a sound objective, at times it can lead to dysfunctional behaviors that distort business outcomes. Imagine a hypothetical scenario of an IT employee spending three full days rebuilding and reconfiguring a four-year old Intel-based server that might have a market value of \$500. The cost of the employee's labor, fully loaded with benefits, training, etc., can easily run \$1,000 per day. The critical question is what would the expected useful life of this device after an additional \$3,000 is invested in it? What would be the cost of buying a new server for \$1,500 that might have a useful life of 3-years and new management software that allows configuration in one day? Failing to fully-value employee time and effort when making "renovation" decisions can lead to the scenario of "spending one-dollar to save ten-cents." We emphasize that employees and organizations engaged in this are absolutely knocking themselves silly trying to do the very best thing for their organization. In IDC's view, a lack of information and business planning in situations can lead well-intentioned, hardworking employees astray.

Information technology is not just about enabling a company, its customers and suppliers. IT and business processes must be considered from the perspective of the company's customer's customer and the company's supplier's supplier. In other words, IT and extended business processes are more tightly interwoven than ever – and the trend of further integration will continue. Procurement and funding models, whether they are lease or buy, need to consider intermediate and longer-term requirements. IT technologies continue to advance rapidly – both in capacity and in ease of management. Business and technology leaders, striving to enable their organizations with relevant technology that take advantage of labor saving technologies, need to balance all the relevant factors as they strive to minimize expense.

Although not the ideal solution for every acquisition, lease / financing and the related lease management service options should be considered during major IT infrastructure renovations, operational reviews or new technology assessments.

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