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Leveraging Leasing

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Computerworld - Businesses are increasingly leasing hardware as a way to reduce upfront capital expenses while still investing in new technologies to keep pace with their growing competitive needs.

The Equipment Leasing Association's (ELA) fourth-quarter 2001 "Performance Indicators Report" (PIR) reveals an increase in new business leasing volume of almost 13%, compared with the same period in 2000. First-quarter 2002 leasing figures, scheduled to be released this month, also look strong, based on preliminary returns, according to officials at the Arlington, Va.-based ELA. IT leasing makes up about 15% of all types of equipment leasing.

Customers say the benefits of leasing from hardware suppliers directly include regular technology upgrades and less finger-pointing, since the vendor is the single point of contact on both equipment and contract issues. The primary drawbacks are the lack of control associated with not owning the technology and being tied to a single vendor.

Analysts and IT managers agree that leasing hardware can reduce financial roadblocks to investing in big-ticket IT projects (such as enterprisewide customer relationship management or enterprise resource planning efforts) by spreading out costs over a few years or even skewing them toward the back end of a project instead of swallowing the cost all at once.

In mid-2001, ADP Brokerage Services Group, a division of Roseland, N.J.-based Automatic Data Processing Inc., faced such a challenge, which it

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recently resolved with help from IBM.

Typically, it's cost-prohibitive for a business to replace leased servers. The lease must be paid off in full before new equipment can be purchased or leased. But reliability problems on a variety of Web applications prompted Dennis Noto, ADP's vice president of processing services, to shop around for a new system with better performance and higher availability. So ADP tapped IBM, which settled four leases for servers from Sun Microsystems Inc. and storage equipment from EMC Corp. and other vendors. Then IBM replaced ADP's old equipment with its own pSeries/Shark hardware.

Through the arrangement with IBM, ADP has decreased its monthly lease expenses by 25% and gained three times the performance of the previous systems, says Noto.

Off the Books

Companies typically take advantage of leasing to get costly hardware assets off the books, says Ralph Petta, vice president of industry services at the ELA. IT hardware is the most popular leased item after transportation equipment because it depreciates and becomes obsolete faster than other assets, he says.

"It makes sense for companies to lease IT assets from finance companies and take advantage of regular upgrades," as opposed to determining how to get rid of older equipment or interrupting business operations to shift to new servers, Petta says.

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