

# The Benefits of IT Leasing

**A White Paper**

July 2006  
CSI Leasing, Inc.

## **INTRODUCTION**

According to the Equipment Leasing Association, more than 80% of U.S. companies lease some or all of their equipment. Why are so many corporations choosing to lease instead of purchase? These companies realize that the true value of their equipment comes from its use, not its ownership. This is especially true with rapidly depreciating assets such as computer equipment, which is the most commonly leased type of equipment.

Implementing a strategy to acquire, finance and manage technology assets provides benefits that appeal to IT, finance and legal executives alike. These benefits are listed below.

### **Leasing Reduces Costs**

Because leasing companies plan to resell the equipment at the end of the lease, they do not look to the customer to finance the entire equipment cost. Therefore, the present value of the lease payments is almost always lower than the cost of the equipment if purchased. Companies who lease usually realize additional savings from the services that leasing companies provide.

### **Conserve Working Capital and Keep Lines of Credit Intact**

There's an old rule of thumb that says to purchase appreciable assets and lease depreciable assets. Rather than tie up capital dollars in a quickly depreciating asset such as a computer, you can instead pay for the asset as you simultaneously gain the benefits of its use. By incurring the monthly expense of leasing, companies keep their working capital and line of credit available for income-producing activities.

Another financial benefit is that leasing keeps debt off the balance sheet, thereby improving performance ratios.

### **Eliminate Book Write-downs at the End of the Equipment's Useful Life**

The following is an all too common scenario. An IT asset is being depreciated over five years, while its useful life is only three. At the three-year mark, the mismatch creates quite an internal and accounting conflict. The company will be forced to either continue to use old equipment, put it in storage to continue depreciation, or take a book loss. Leasing always eliminates this issue, allowing a company to match accounting treatment to the equipment's useful life.

### **Tax Advantage**

For most companies, lease payments are 100% deductible as operating expenses.

### **Manage Budgets with Predictable Cash Flow**

Leasing payments, unless otherwise requested, remain consistent month to month. Many managers prefer this stability and predictability. Additionally, acquiring new equipment only causes an incremental increase in monthly spending rather than a large cash outlay.

## **Lifecycle Management**

As hardware gets cheaper and many other IT costs simultaneously increase, actual hardware acquisition costs now only represent about 20-25% of the overall cost of using technology equipment. Companies that purchase their IT typically put a great amount of focus on this acquisition cost while losing sight of the total lifecycle costs. Rather, it makes more sense to consider the entire lifecycle up front, and making decisions accordingly. Leasing can provide considerable cost savings and other benefits down the road.

## **Disciplined Refresh**

Research done by both Gartner and the Robert Frances Group has shown that replacing a desktop after three years is more cost-effective than keeping it for a longer period. This happens because the savings in hardware cost are offset by the increased cost of maintenance, support and downtime related to equipment failures.

Leasing puts an automatic refresh plan in place.

## **Asset Tracking**

Keeping track of your IT assets is a difficult but important task. Most leasing companies offer some sort of tracking vehicle (online, hopefully) to take a bit of the burden off your shoulders. Asset tracking, provided as a free service to you, provides considerable cost savings and control.

## **Simplified Disposal and Compliance with Disposal Laws**

With numerous environmental & data security laws now in effect, disposing of computers is more difficult than ever. Safe, compliant disposal has become a significant cost to companies. Depending on the services offered, a leasing company may be able to provide the necessary data protection and disposal/recycling services you need, saving you considerable costs and time.

## **Conclusion**

Now more than ever, leasing companies are making it easy for corporations to acquire the latest technologies while optimizing their IT budgets.

An effective leasing program helps a company manage its IT assets, simplifying the budget process and reducing the overall lifecycle costs. Leasing creates the need for disciplines within the company to not only consider the acquisition cost, but also the tracking of the asset, the planned refresh, and the ultimate disposal of the equipment. Leasing allows the company to level the IT budget from year-to-year by matching the budget requirement with the useful life of the equipment. By implementing a planned refresh cycle, technology obsolescence risks are reduced and support and maintenance costs can be reduced. Technology refresh lease programs transfer the hassles, risks and expense of disposal to the lessor. As a bonus, the customer should expect to pay less for the equipment. The total rental payments with a term of 36 months or less should be less than the acquisition cost on a present value basis.

## **About CSI Leasing**

CSI Leasing, Inc. (CSI) is the largest independent IT leasing company in the United States, with offices throughout the North, Central and South America and Eastern and Western Europe. A pioneer in the IT leasing arena in 1972, CSI today employs over 460 leasing and remarketing specialists. CSI is privately held, maintaining the same senior management since inception, and financially stable, with assets topping \$1 billion.

One of CSI's greatest differentiators is its full suite of disposal services. Its SecureTrack program provides a secure chain of custody from the time equipment is deinstalled until it is received in CSI's secure warehouse. CSI performs a triple-pass hard drive sanitization and provides certification of such.

For non-functioning equipment and parts, CSI's E-Scrap Processing Center de-manufactures units into raw materials under EPA guidelines. This, along with a Zero Landfill, Zero Export Policy, provides assurance to leasing customers that their off-lease equipment is being disposed of properly.