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What to Look for in a Leasing Company

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IT equipment leasing and financing help commercial businesses of all types and sizes acquire the equipment they need to conduct their business operations. Leasing provides a level of automation, flexibility, and simplicity that gives customers a strong IT asset management plan and reduces total cost of ownership, but like all business relationships, a successful leasing relationship depends on a thorough understanding of all aspects of the transaction by both parties. This document outlines IDC's view of the key topics to discuss with a leasing company before finalizing the relationship.

The following questions were posed by CSI Leasing to Susan Middleton, research director for IDC's Technology Financing Strategies and Technology Valuation Services programs, on behalf of CSI Leasing's customers.

Q. What are the most common reasons companies choose to lease technology as opposed to purchasing it?

A. IDC's IT leasing and financing research demonstrates that collaborating with a finance provider to share in the risk created by life-cycle shifts and unforeseen equipment introductions is integral to a more productive and efficient IT investment strategy. IDC surveys consistently indicate that customers choose leasing because of the numerous benefits that this procurement method offers. Typically, the top reasons that organizations lease IT equipment are:

- **Conservation of capital.** Leasing enables customers to allocate precious budget dollars to other business initiatives instead of their IT infrastructure.
- **Safe and secure equipment disposal.** With leasing, customers have peace of mind that confidential data will not get into the wrong hands and expose them to a potential lawsuit. The agreement between the two parties covers all aspects of the return and disposal process. Look for reliable and experienced lessors/disposal specialists across the globe that have been vetted and meet country-level regulatory compliance requirements.
- **Operational flexibility.** Leasing offers a built-in renewal strategy for IT assets that saves money and avoids risk from outdated technology infrastructure that cannot support new business initiatives.
- **Timely equipment refresh cycles.** IDC studies indicate that the costs of extending equipment beyond useful life cycles increase maintenance and support costs. Intuitively, this makes sense, but customers often lengthen equipment life cycles to preserve capital and save money. However, the opposite is often true, as the increase in maintenance and support costs offsets any up-front savings. Having a leasing contract in place enables companies to put together an upgrade plan that allows employees to have reliable equipment with timed performance upgrades.

- **Budget management.** Aligning equipment costs with business initiatives is a common strategy within organizations. Companies that lease their IT equipment can quickly allocate the monthly costs to business units and conserve capital.

Q. What are some tips for properly vetting a leasing provider (and is the lowest payment always the best deal)?

A. Leasing provides a level of automation, flexibility, and simplicity that gives customers a strong IT asset management plan and reduces total cost of ownership. However, when customers evaluate leasing offers, they often focus on the bottom-line price or a cheap lease rate factor. IDC surveys reveal that a top driver for lessor selections is price related, and one of the biggest complaints is about back-office procedures and billing. It's important to look beyond price to the deal's total costs, especially end-of-lease costs. A common criticism about leasing concerns the restrictive language about end-of-lease processes that can add significant fees for companies. Most of these policies are related to asset return and automatic renewals. When selecting a lessor, vet all aspects of the agreement including up-front negotiations, delivery, and installation; midterm support for upgrades; and end-of-lease return and disposal policies. Verify the financial stability of the lessor, and require it to provide financial statements. Reach out to other companies that have worked with this lessor, and ask about unexpected fees, restrictive equipment return policies, automatic renewals, or extensions for missing assets and other surprises. Avoid punitive language such as "all but not less than all" and ABC riders that can significantly increase end-of-term fees and litigation costs. Bottom line: Don't let aggressive pricing sway your firm into entering a lease agreement that may have punitive end-of-lease costs. Typically, if the deal looks too good to be true, it is.

Q. Are there any special qualities or requirements to look for in a leasing company for global organizations that want to lease worldwide?

A. Globalization has expanded corporations beyond their local borders and into new regional cultures with differing political, legal, and tax rules. Because virtually all business processes are now enabled by IT, business cannot grow 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 European Union, or Asia/Pacific is necessary. A select number of lessors have the capability to provide integrated international business practices and processes. Global organizations should choose a global leasing company that can save them from having to work with different vendors throughout the world. Furthermore, a global leasing company should be able to replicate contracts and terms and conditions throughout several countries. Providing consistent service and finance support, regardless of location, should also be negotiated. Additionally, it's important to work with a lessor that can address the following issues:

- New lease accounting rules from the FASB and IFRS will impact customers' balance sheets and increase the importance of having a consolidated view of all leasing activity worldwide. Ask about the lessor's online portal and the data that can be disseminated.
- For the C-suite to monitor leasing activity by all subsidiaries, there needs to be easy access to all IT assets across the globe.
- It is critical to have safe and secure disposal that meets both regional and country regulations. A global leasing company should have proper disposal methods in place no matter where the equipment is leased. Processes should be similar throughout the world, and detailed reports after disposal should be available.
- It's important to note the tax implications if your firm is planning to lease equipment across borders (i.e., the equipment and the lessor are in different countries). The leasing company should have professionals on staff who know the nuances of tax laws in every country.

Q. What does the leasing company do with technology once it's returned, and how can you be sure data is safe and ewaste is properly recycled?

A. The biggest challenges for organizations, whether a global business or a local operation, are ensuring safe and secure disposal policies and vetting their lessors to verify that all federal and local environmental and regulatory standards are met. Across the globe, the regulatory environment for secure equipment disposal is under increased scrutiny as the hazardous nature of these materials is well known. Most companies want to avoid the headlines associated with a data breach or significant fines for unsafe disposal practices, so this is a key issue to discuss with your lessor.

Another issue to discuss with your lessor is the proper sanitization of hard drives according to the National Institute of Standards and Technology. That conversation should determine whether the leasing company should resell the sanitized assets if the equipment has economic value or recycle properly.

The leasing company should also provide proof of sanitization and proof of recycling. If your company has sustainability goals, the leasing company should provide proper reporting to support those goals and show you exactly what is recycled.

Finally, equipment disposal is most cost effective when the lessor owns several facilities across a large geographic area. Owning facilities in various geographic locations not only allows the leasing company to save on shipping costs but also gives the leasing company total control of the equipment, your data, and the entire disposal process without having to rely on a third party.

Q. Typically, the biggest issues/obstacles with leasing have been back-office operations and hassles associated with returning equipment at end of lease. Do you have suggestions on how to evaluate current or future lessors?

A. When evaluating a lessor, you should look at all aspects of the transaction. We have already discussed that it's important to talk to references about the complete transaction, including installation, customer service, and end-of-life policies and procedures. Other important issues to evaluate are:

- **Customer service.** Will you know the people servicing your account, or is customer service outsourced? What is the typical turnaround for a request to this department? How is customer service handled on a worldwide basis? Will there be one point of contact or a different contact in each region? Superior customer service will offer a centralized view of all leasing activity on a global basis by the leasing company and access to contacts at each location when required.
- **Sophistication of online leasing tool or portal.** Will the tool or portal allow for multiple users with varying levels of access? Can customers make changes if equipment needs or term requirements change?
- **Flexible terms and conditions.** Can you make changes during the lease? Will the lessor work with the company if its business needs change?
- **Billing and invoices.** Customers want clear and concise billing statements. Ask if invoices are customizable and can be sent to multiple locations. Can custom information be included to help allocate costs? Are invoices available online?

- **End-of-life procedures.** The lessor must offer secure disposal of all IT assets and meet regulatory compliance requirements in all countries of business. Check the lessor's subcontractor relationships, and ask whether there will be additional costs if end-of-lease procedures are outsourced.
- **Equipment return process and audit.** How fast is equipment audited at the end of lease? Slow audit times can result in unexpected damages invoices months after a lease terminates.

The bottom line here is to think beyond price. Will this lessor be easy to work with and provide the level of secure, reliable service that your organization needs? Or will you be faced with unexpected costs and fees for standard options? Collaborating with a sophisticated, experienced leasing company that can share in the risk created by life-cycle shifts and unforeseen equipment introductions is integral to a more productive and efficient IT investment strategy. That's why it's important to ask the right questions before you sign the lease.

ABOUT THIS ANALYST

Susan Middleton is a research director for IDC's Technology Financing Strategies and Technology Valuation Services programs. Ms. Middleton's areas of expertise are the midrange and high-end server marketplace, enterprise storage, and HP printers. For each of these technology segments, Ms. Middleton follows trends, technology changes, and market forces that impact life cycles and IT portfolios. She provides insight and guidance to her clients and helps them manage their IT portfolio risk. Ms. Middleton is also the lead analyst on the annual global IT leasing and financing document that sizes the market opportunity in the top 25 geographies.

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