ARGUMENTS AND COUNTER-ARGUMENTS ABOUT USING LEASE FINANCE

Equity-based or residual-based lease finance is one of the more powerful financial tools for managing technology investments--especially for technologies with faster obsolescence, faster refresh, and high lifecycle costs. More often than not, lease finance is simply unknown or misunderstood by a prospective user. Sometimes they have had a bad experience with a particular leasing company, or perhaps they leased the wrong assets for the wrong reasons.

This paper lists the most common arguments raised against the use of lease finance and presents the factors which must be considered in assessing the validity of those arguments.

The majority of all equipment acquisitions in this decade are financed. Most large, strong, stable, and thriving organizations exploit the inherent economic, management, and competitive benefits that are the value propositions of equipment leasing. In fact, Seven out of ten businesses in the US use equipment finance, but not all of these take advantage of the 'bundle of benefits' that defines leasing.

This paper will list the most common reasons or arguments given against a consideration of leasing--and a counter-argument presenting data and perspectives which should be considered in evaluating the accuracy of the argument. They are organized under four headings:

- Misunderstandings of Lease Processes
- Misunderstandings of Lessor Business Models
- Misunderstandings of Where to Use Leasing
- Objections due to Situational or Organizational Issues

Both the argument and the counter-argument will be given in first-person style, to vividly represent how these are often encountered.

Introduction: Objections and Evidence

Arguments for some statement or position, and counter-arguments against a statement or position are the building blocks from which we build company policies, values, and strategies. We formulate positions like "Our company does not endorse political candidates", "Offering bribes is bad", and "We should target the low-income market for our product". We then try to back these claims up with reasons and/or evidence.

- "*Our company does not endorse political candidates*" **because** doing so might alienate segments of the markets we serve, **because** doing so might cause divisions within our employee data, and/or **because** doing so disqualifies us from operating in certain markets.
- "*Offering bribes is bad*" **because** it is illegal in our territory and under our regulatory authorities, **because** it subverts our marketing message (that our products are selected because they are the best fit for the need) by changing the buying criteria to who can offer the biggest bribe, and/or **because** it creates destructive patterns in our vendor relations.
- "*We should target/enter the low-income market for our product*" **because** that market is under-served by our competitors, **because** that market frequents the distribution channels we have access to, and **because** our product will meet a felt need at a price-point acceptable to that market segment.

In a business case--especially one in which revenues, costs, and profits are central--some of the reasons themselves need support from hard facts and concrete evidence. In other words, assumption, belief, and intuition are not enough!

Consider the last of the three examples given above ("*We should target the low-income market for our product*")--what kind of evidence might be needed to support the reasons themselves?

Reason Given	Evidence Needed (examples)
That market is under-served by our competitors	Statistical market surveys; Financial analysis of competitors' results; Field surveys of buying intentions and obstacles
That market frequents the distribution channels we have access to	SWOT analysis of our influence in those channels; Market surveys of shopping patterns by that demographic;
Our product will meet a felt need at a price-point acceptable to that market segment.	Field surveys (related to appetite for, and perception of, this product and brand); Budget modeling and product substitution analysis Data from test marketing projects; Feedback from early users as to 'goodness of fit'.

The savvy financial executive does this as a matter of course, asking the hard "prove it" question of "where is your evidence?":

- "If you give my department this much extra budget, we will produce X more dollars of profit"--
  - *"Prove it -- where is the evidence that you will do this?"*
- "Well, our competitor XYZ did this same project, and it worked for them"
  - *"Prove it -- what evidence do you have that it will have the same effect here?"*
- "Well, we tried something else our competitor did last year, and it worked here"
  - *"Prove it -- what evidence do you have that this was not just an isolated case?"*

And on it goes, as the CFO prudently tries to reduce the investment risk by grounding the decision on as much historical data and management track record as is available.

Of course, there is more to it than that. Even with the historical track record, the future trajectory is still uncertain. The CFO has to then assess both any counter-arguments ('they will buy it, but we cannot make any profit off of it, due to cost structure") and any risk factors extraneous to the business operation ("The government might reduce community support dollars if they know that that market is spending dollars on our product.").

Each one of the claims and counter-claims below could be analyzed in this way, asking simple questions like "why do you believe that?", "what evidence do you have to support that belief?", and "can you generalize so broadly with that amount (or lack thereof) of evidence?".

Many of our colleges integrate critical thinking skills into the English composition courses now, teaching students to ask the right questions of some position taken by an author in an article. If we applied those fairly common assessment questions to an objection like "*Leasing is always more expensive than buying*", we might get this list of questions:

- ❒ **Is there enough evidence to support the position**: "Prove it--where is the collection of invoices paid to a lessor that totaled up above the price of the equipment purchase order?" *and* "you have shown me one set of invoices in which this was the case, but would you be able to produce this for the majority of leases we have done or that you have done in a prior job?". What evidence do you have to show that this cost-overrun was not an exception or a mistake on OUR part?" [Without that evidence, there is no real warrant to generalize to 'all leases'.]

- ❒ **Is there counter-evidence, and if so, how strong is it**: "Are there cases where leasing was NOT more expensive than buying? How many cases, and how does that compare to the OTHER evidence? The FASB standards have always required operating lease payments to only total to less than 90% of the purchase price--so why is your data/evidence out of synch with that regulatory requirement?" [In the presence of strong and extensive counter-data, there is no real warrant to generalize to 'all leases'.]

- ❒ **Is the evidence cited relevant to the point being made:** "Well, I can see that you have produced invoices and records of payments to lessors in several cases, where the cash-out was greater than the purchase price would have been--but--why would I believe that these cases were relevant to leasing *itself*, and not just an argument not to use those specific lessors or to be more careful in how we management his?" [In other words, the evidence may have more relevance to a conclusion about 'bad lessors' or 'lack of due diligence on the part of the lessee' than about leasing itself -- which is used widely, successfully, economically, and repeatedly in the US market.]

So, in internal discussions about leasing in your teams and within your organization, if someone takes the strong position that *'leasing is always more expensive than buying*', challenge them to produce evidence that is (1) adequate in quantity, quality, and scope, (2) not contradicted by other data, and (3) precisely relevant to the position being taken.

The same due diligence should be applied to each of the objections and misunderstandings below, since many of them are often based on anecdotal data, intuition, or just 'tradition' -- and should be critically examined to assess whether they might constitute a legitimate objection to leasing (in a specific situation) or not.

Misunderstandings about Lease Processes

- ❒ **“Leasing is only for companies who cannot finance another way”**

  "The vast majority of the Fortune 500 use lease financing for capital equipment. They have adequate cash and certainly have access to favorable credit, yet they chose to use lease financing selectively and strategically. And to be perfectly transparent, we really would not be having this conversation if you did not have another way. We can only do business with truly credit-worthy and financially-strong companies! These are our clients--as well as the main users of financing--because they KNOW how to use leasing as a tool ALONGSIDE the other financial tools they have at their disposal."

- ❒ **“Leasing adds extra steps, extra workload, extra transactions, extra supplier risk, and extra delay into the process of getting and refreshing equipment”**

  "A lot of our customers feel that way before they begin a relationship with HTF, but early in the implementation planning phase, they realize that our side of the asset management function will actually eliminate many tasks on their side. For example, in a multi-vendor world, many of the functions of ITAM processes are things we have to do ANYWAY, such as vendor invoice reconciliation, serial number entry into a centralized asset database, assignment to cost centers, timeline for action steps, recording of model and features and so on. These are onerous and error-prone processes, but for us it is our lifeblood. This high-level of process quality often reduces the client side of the ITAM process substantially. Our role in the ITAM process is unique to each client, and we develop our integration into your supply chain with ease. Our administrative team is highly trained, with a unique team assigned to each client. This team works with you to create easy-to-use and easy-to-track lease schedule numerics, invoicing, reporting, and tracking through our enterprise-grade asset management Tool. Finally, our leases are designed upfront with the end in mind to build in the rigor around a refresh that is operationally & administratively simple. It is obviously to our business advantage to make leasing from us easy-to-buy and easy-to-love!"

- ❒ **“Leasing REDUCES flexibility—I have to jerk equipment out at end-of-term, regardless of where that is in my production cycles—and if I want to change technologies, I can’t—I am locked into a contract!”**

  "Whether you lease or purchase - you have a planned lifecycle in mind, and would not build an application lifecycle without consideration of the technology base upon which it runs. With an HTF lease, you pick any term of your choice and of course have the options to return, extend, or purchase. Never will your equipment be pulled out of your production environment unless it's your choice and that choice was made well in advance. What's most compelling about your concern, interestingly, is that the need for flexibility it expresses is exactly the benefits of leasing and of leasing with HTF. Lease finance supports nimbleness of footprint (=ability to change quickly) in several different ways: (1) a natural end-of-cycle transition point, in which anything can be changed—vendor, model, form factor, etc.; (2) out-of-cycle changes, via early-terminations/adoption of new model or month-to-month temporary extensions; and various types of allowable substitutions (e.g. like-for-like). So, leasing with HTF actually enhances the options you have along the lifecycle curve because we are market leaders in trading equipment. If prior to, or after the planned lease-end, you need to upgrade or swap to alternative technology - our team will trade out the equipment at retail market values and deliver economic & technical flexibility that you could not produce on your own. We trade technology for a living, our clients don't".

- ❒ **“Leasing is too complicated—Legal has to negotiate a big contract, we somehow have to track/find all these assets, we have to certify the lessor as having adequate security and/or compliance structures… too much overhead”**

  "Leasing with many Lessors--and especially using multiple Lessors with difficult or unique lease documents-- can be complex, no question. And smaller, single-vendor, or specialty leasing firms often have not had to INTERNALLY develop the complex, enterprise-grade asset management skills and systems-- which our clients get to leverage to reduce THEIR complexity. We have to track the assets at a more detailed level than most of our clients, and we have to document our client-facing security in audits routinely. So most of any additional complexity is on OUR side of the transaction processes and has been managed effectively for decades. From a client-side perspective, using HTF's 28-year mature lease documentation has proven to be the easiest according to our customers. As the largest independent Lessor in the U.S. - we have customers who have used us for 28 years, and others that have leased over 1,000 lease schedules. The Master Lease is executed once, with 1-page Schedules created for each type of equipment. One of the main reasons our customers select HTF is that we fund the greatest diversity of equipment types which allows you to use one Lessor for any of the equipment you choose to finance - leases or loans, terms from 12 to 96 months.

Misunderstandings about Lessor Business Models

- ❒ **“Leasing is to be avoided because I had a bad experience with a lessor in the past—and many of my peers say the same thing”**

  “Hmmm…that seems really odd to me—this shouldn’t happen that much in large companies like yours. The business model of leasing doesn’t really ALLOW for such abusive behavior...some 62% of all capital equipment in the US is financed, with a good chunk of that leased... That statistic just couldn't exist if your bad experience was the experience of the majority of firms. Given that IT leasing has become a common and almost pervasive practice at many firms of your size and business focus, I HAVE TO ASSURE YOU that this issue does not have to be a show-stopper for you. You CAN reap the financial, operational, and flexibility benefits of selective leasing, without a repeat catastrophe like that. It would be a tragedy if that abusive firm--by creating a bad taste in your mouth for leasing--also ended up ROBBING YOU of the business advantages of GOOD leasing!

- ❒ **“Leasing is always more expensive than buying because you are paying interest on the money”**

  "That might be true for a subset of leases--perhaps mostly very long term ones. But in the vast majority of cases--in the types of assets we are talking about and for the average lifespans in the 2-4 year range--it is substantially less expensive to lease, because you are not paying for the whole thing. In these operating leases, we invest equity in the deal, so you never pay 100% of the invoice costs. On average, for example, for a 36 month lease, your payments to HTF would be 12-15% less in total than your check to the equipment vendor would be. And, although it seems odd on the face, when you calculate the implied interest rate on our traditional leasing, it comes out to be a NEGATIVE interest rate! Because the amount paid is less than the amount financed!"

- **“Leasing is never a Win-Win… the lessor only makes money if we lose money—either by extensions, hidden fees, or inflated buy-out prices on end-of-life gear.”**

  "You may be right if you choose the wrong partner, no question! In total transparency - we lose money in 30-35% of our transactions every year - we simply over-invest in equipment whose values are not supported when the equipment is returned to us and remarketed to the open market. We have no surprises in our structures (extra rentals, fees, difficulty in returns, etc.) and we will use any contractual language (FMV, for instance) that works for your counsel. We eagerly await the day when everybody moves to the new FASB leasing standards that will FORCE all of our competitors to disclose those costs up-front, so that we (and you) get a fair playing field. We invest responsibly, and we are most proud of our proven reputation on lease-end extension and purchase pricing to our customers. I would welcome the chance to have you speak with any # of customers in your industry who have been through multiple lease terminations with us as proof.

- **“Independent lessors are second-rate, because they are not connected to the manufacturer for support and authorization and such.”**

  "Actually - the opposite is true. The Captive Lessors use what is called 'blind discounting' to get to their lease rates--they use profit margins that they did NOT give you when negotiating for the product, and use these extra dollars to subsidize the lease. By using an Independent lessor and forcing the manufacturer to sell the product to you at the lowest effective cost (greatest discount) - you can significantly lower your lease cost by using us. And, as for support and certifications--which you are VERY RIGHT in being concerned about (!)-- These are actually arrangements between the manufacturer and the solution provider/VAR whom we partner with. We ONLY fund deals with vendors who have the FULL support of the manufacturer for providing service, warranty, and support. No leasing company--even manufacturer owned--would have such certifications since they would not be the provider of those services."

Misunderstandings about What to Lease

- **“Leasing is only for big assets—since it’s a form of financing or borrowing”**

  "Oddly enough - the opposite is true--because the large assets are easy to track and are highly visible assets--those are 'easy'. Distributed assets (tablet, laptops, mobility devices, P.O.S., carts, scanners, et. al.) are those that are most susceptible to technical & physical obsolescence and should be leased. And, although the nature of an HTF lease DOES save considerable cash on such assets, these are often put on leases for management reasons--to create a refresh cadence. Leases (or our LeaseLine product, specifically) create quarterly accountability structures which-- within 2, 3, 4, or 5 year refresh periods - generate constant OPPORTUNITIES to refresh an ageing infrastructure every quarter. The distributed assets are the hardest to track, have the highest amount of post-warranty indirect spend/costs - and are the technologies that your employees touch & feel every day. Those assets, not the big assets, are your greatest challenge and our greatest opportunity to help.

- **"I cannot use leasing for the software or services—just the hardware-- so I will just have to buy the solution as a unit"**

  "Well, sometimes it is difficult to lease ONLY the software or ONLY professional services, but in modern leases--and the ones we typically do for organizations like yours--we lease the full bundle: hardware, software, warranty, service contracts, and even migration labor sometimes. So, we do this as a unit too, which means you can look at this option from the convenience angle too--leasing for the ENTIRE SOLUTION. It's pretty standard practice in our world."

- **"I don't ever plan to refresh these assets anytime soon—so it doesn't make sense to put them on a lease."**

  "Most IT assets have longer physical lives than is cost-effective to keep them in service, of course. But if you were going to use these assets in production or in settings where they were going to be DEPENDED on, then you would have to insure that you could get maintenance support after the warranty period and that the help desk would still support that older year--as its lifespan aged out past 3-4 years. If you buy spares (tying up more capital), it might not be an issue, but if I were you, I would check with the Help Desk on what they could commit to, I would check with the OEM for support rates for out-of-warranty gear, and --just to be prudent--I would check my 'accidental out-of-cycle' refresh rate. In other words, we ALWAYS refresh SOME units out-of-cycle, due to user preference, changes in vendor support, and so on. For example, in one model we ran, if you had to early-refresh only 1% of the installed base early (even in a 5 year lifecycle example), it would be still cheaper (cash out the door) to have leased and just turned the unit back in early. Sometimes a 'buy and hold' strategy can work, but many times it can't--so it might be worth your time to look at leasing at least SOME of the units."

- **"We are having to get so many new assets for this new geography we are opening, it just makes sense to buy them all—in one budget-- instead of leasing some and buying others"**

  "That's certainly possible, but there's no really strong reason to settle for that and leave money on the table. I believe we can work directly alongside your many suppliers for this build-out to design a simple regimen for segmenting the leased asset costs out of the invoices - we do this with hundreds of vendors every month. And, in some, more-complex cases it can be done via a well-designed sale-leaseback vehicle, where everything is purchased (as 'one') by you and then we buy some of that from you and lease it back--accomplishing a similar objective. And If you are thinking about leasing only the IT assets (to save the cash via equity-based finance) while purchasing the non-IT assets, I'd like the chance to speak with your vendor and present to you a detailed sourcing/supply chain administrative solution that not only supports the solution, but actually provides staff augmentation where we're providing administrative assistance in these growing remote locations.

Objections due to Situational or Organizational Issues

- ❒ **"We have every project on hold now, due to the economy or our current financial status."**

  "I can certainly understand that policy—it is the obvious thing to do in times or situations like these. Of course, some projects actually can't be delayed—like regulatory compliance and replacement of broken equipment. … And, given the need for creative financing for these projects today—to conserve cash—we at Huntington might be able to help you achieve BOTH goals, through some innovative financing or leasing structure. If you had an easy way to finance a couple of important projects, which ones would they be?—maybe we can provide you with some alternatives to consider."

- ❒ **"We already have a preferred independent leasing vendor."**

  "Let me first commend you on your loyalty to your vendor. Customers who can recognize and reward superior service and quality with such loyalty are EXACTLY the kinds of customers Huntington seeks and values most. Our customers speak of us in glowing terms, just as you have about XYZ Leasing Inc., and we hope someday to have you speak of us in the same terms of loyalty and appreciation...But I do need to point out that we are not exactly like XYZ. Although we provide similar leasing and lease-based services, we are unique in the market because of our enterprise-only focus...And, to be honest, at this scale and in an organization as large as yours, you really should only be working with somebody that specializes in enterprise implementations. There are many good independents in the market, but most are either not equipped to deal with the organizational realities of large companies like yours, or are too limited in the range of assets they can support—forcing you to multiply financing partners over time… it just makes sense to start with a proven enterprise-grade partner, who can both scale volume-wise with you and can handle the widest possible range of assets for you—as the need arises--as well as bring you new ideas on best practices in ITAM and technologies.

- ❒ **"As a CIO I agree with you, but Finance won't let *ME* lease."**

  "I can certainly understand that limitation, but I would also suspect that there would be important exceptions which Finance would probably HAVE TO APPROVE—if leasing were the only way to meet the business need, and the business need was truly important. For example, if your IT group needed to lease a used HP server or a used Power system for no longer than a year—JUST FOR TEST purposes, how would you go about doing that? We have customers who use short-term leasing like that, to test out new server alternatives or to research new automation software—in prep for server architecture upgrades, for example. For them, a one-year lease is essentially the ONLY WAY to be sure they are not 'stuck with the technology', should they decide NOT to adopt it. ... Given your relationship with Finance, how would YOU accomplish the same goal: short-term usage of a technology you want to 'send back' at the end of a year?

- ❒ **“We don’t lease—we always buy, because our cost of capital is so low."**

  “Hmmm…I don’t think I understand the company's policy here. We have many, many customers with low cost of capital like you, but they are doing tons of selective leasing—ESPECIALLY for low-IRR IT upgrades and tech refreshes. They have plenty of access to low-cost capital like you do—but they obviously come to a different conclusion on the matter than you have in the past—what do you think I am missing in this picture? Why do you think they would do this, while your firm wouldn’t? What would you guess their reasoning might be? Remember, the vast majority of equipment acquired today is financed--with a good chunk of that leased...?”

- ❒ **“We are so poor at asset management that it is safer to buy or do buck-out leases”**

  “Hmmm…that seems really odd to me—this shouldn’t be that big of an issue in large companies like yours. Very few large enterprises HAVE even 'good' asset management practices, but most of them still use leasing for key IT assets. It really doesn’t take a mature back-end process to reap the cash and flexibility benefits of leasing, since most of the administrative load falls on the lessor (e.g. schedules, asset database, transition suggestions). Some clients feel that the incremental oversight responsibilities which ARE required are significantly OUTWEIGHED by the cash savings and asset management benefits. Most leased assets are NOT turned in 'on time'--they are either refreshed (keeping the monthly budget line flat and predictable) or they are extended for a couple of months. A well-structured lease generally allows several extensions before the cost trade-off forces a decision point.

- ❒ **“We are moving toward outsourcing and the equipment will be their responsibility.”**

  "I see...I need to mention that we generally urge our clients to seriously consider maintaining ownership of the assets throughout any such service relationship. This is the only way to minimize the negative impact of problems or failures in those relationships, for business continuity reasons. At any rate, this issue must be TIGHTLY controlled in such a relationship, since we have even seen failures in which accurate asset inventories could not even be obtained from the service firm. ... Are ALL the technology assets going over? Copiers? Executive laptops? In-branch technologies? ... Is the IT department nervous about transferring all the hardware? Are there certain assets that they might want to transfer to a neutral third-party, while still getting the cash flow benefits of a sale-leaseback?

- ❒ **“We are moving to slower refresh cycles, so the leasing costs are higher than buying"**

  "Hmmm... that's a surprise to me... most of the trends and studies over the last 10 years point that a 3-4 year refresh is the best cost-minimization strategy... of course, some people OVERBUY so the systems can stretch longer, but that ties up capital and also doesn't exploit the constant price declines in technology. But I would be curious to see how your firm came to that conclusion--I assume that the Help Desk, deskside support, and the application architecture folks were consulted, right? We have a lot of experience in helping clients find all the relevant costs--for their consideration--so they don't get blindsided down the road with unexpected support costs and out-of-warranty claims... I would like to set up a phone call with our CTO--if you would like just to double-check the completeness of your cost estimates...?

- ❒ **“Our Parent Company (or new owners) won’t let us lease”**

“I can certainly understand that limitation, but I would also suspect that there would be important exceptions which they would probably have to approve—if leasing were the only way to meet the business need, and the business need was truly important. For example, if your IT group needed to lease a used HP server for no longer than a year—just for test purposes, how would you go about doing that? We have customers who use short-term leasing like that, to test out new server alternatives or to research new automation software—in prep for architecture upgrades, for example. For them, a one-year lease is essentially the only way to be sure they are not ‘stuck with the technology’, should they decide NOT to adopt it. Given your situation there, how would you do that: : short-term usage of a technology you want to ‘send back’ at the end of a year?

- ❒ **“We only lease from our equipment vendors (Captives).”**

"Hmmm… I assumed you wanted to save as much money on the IT spend for the year—with so many of these configurations containing multi-vendor equipment, a captive just cannot give you aggressive pricing on ALL of the gear that is not theirs—they cannot subsidize it with product margin, and they aren’t as effective as we are in trading in the used equipment market… if it's about cash savings overall, you would be better off with us…And I assumed you also wanted complete flexibility to change vendors or products mid-stream or at end-of-term—without the threat of ‘punitive measures’ at end-of-term when you wanted to switch vendors… I also figured that you wanted to reduce the overhead associated with IT finance… nobody wants to manage 5 leasing vendors, for different brands of equipment … Nor do they want to have to integrate the five separate ITAM data inputs separately … all things being equal, wouldn’t you want to consolidate some and reduce that overhead?

- ❒ **"We always just pay with cash--it is the way we do things here"**

“I assumed you would use cash to pay us, but I also assumed that you wanted to use LESS of your cash for this, than you would need to in a purchase, no? For these types of assets, the cash savings ALONE can be in the 10-15% range—up front. Is there some OTHER reason you wouldn’t want to do this? Or is this just a preference for BUYING or OWNING, rather than about cash per se? The main difference here is what you plan to do with these systems in 3 or 4 years, when you are ‘stuck’ with them? Sometimes it is ‘politically hard’ to refresh then…

- ❒ **"We use our bank for all our financing, so we will just use them for these IT assets too"**

"Well, practically speaking, many banks use us for these kinds of deals--requiring some technology expertise and asset-centric services…And it generally saves money to use an experienced trader in IT assets like us to be able to give you the absolutely best economics…Leases are 'below-invoice' and loans are 'invoice plus interest', after all…and there are too many non-financial elements in something of this importance—like asset information services and disposition planning—that a Bank just cannot help with – just not their skill set . And these elements are critical to the success of the program, and the costs of hiccups and bumps in the road is too high to ‘go it alone'. Implementing a refresh or program like this – at your scale– requires experienced hands-on partnership – not an ‘arm's length’, distant investor… this is a job for experienced, enterprise-grade, day-to-day partners.

❒ **"Well, I have already been a fan of leasing, but the FASB accounting changes look like they will stop me. I have been using operating leases for my technology equipment to save cash. I provide the final negotiated price for the equipment to my Huntington Technology Finance rep and he/she comes back with an operating lease quote that typically is 10% or more under the negotiated invoice price. As a result, I always save cash spend on the assets I don't want to be stuck with for obsolescence reasons. Now the new standards eliminate this savings for me, forcing me to pay more to buy all this equipment now, apparently".**

"Well, actually, there is no change to the economic benefits of an operating lease under the new FASB standards. If you saved money and used less cash in the past because of how operating leases work (i.e. the payment stream is required by FASB definition to be at least less than 90% of the equipment cost), then you will still save the exact same amount under the new rules, and you will still conserve the same amount of cash. They changed how it looks on the financial statements, but that is not related to how it saves you money, reduces obsolescence risk, and lets you change technologies on the fly."

Why and How Successful Companies Put Leasing to Work…

Lease finance is not just about costing less than purchasing, but many of the benefits are derived from that economic reality. Many other benefits flow from the nature of the transaction and documentation (e.g. cost-center accounting, multi-vendor consolidated ITAM data feeds).

Here's a quick snapshot of how leasing structures are being used -- in the three main areas:

❒ **Financial Uses:**
- To save money over purchase (equity-based finance)
- To avoid excessive lifecycle costs on obsolescence-heavy assets (e.g. high-usage laptops)
- To economically accommodate short-term equipment needs (e.g. planned migration)
- To allow cash and favorable debt to be used for more important things
- To have better bargaining power with suppliers
- To work within financial covenants or constraints
- To generate short-term cash
- To buy something they don't have cash for—basic financing

❒ **As Best Practices:**
- To create nimbleness in a specific equipment footprint (for rapid growth or shrink)
- To economically maintain highest reliability and performance equipment at point-of-service (e.g. healthcare, insurance sales reps, kiosks)
- To implement/enforce asset management discipline
- To facilitate and incentivize toward centralization
- To facilitate project charge-back and cost assignment/accounting
- To leverage ITAM asset data resources of multi-vendor lessors (e.g., data quality, scope, systems)

- **Benefits in areas of management and risk:**
  - To smooth out the expense line—predictable costs--defer costs/move ROI up
  - To avoid/smooth spikes in labor and services costs (e.g. data erasure, imaging, logistics)
  - To offset project risk (ability to abandon a technology footprint/investment with lowest cost)
  - To retire idled assets (perhaps with economic recovery)
  - To manage around periodic ‘expense caps’

These are compelling values, and the savvy financial or operational manager should be able to easily identify areas in which these uses would be of high business value.

Conclusion

There are situations and assets which--at some specific time--would not be optimum candidates for lease structures. But the number of these is dropping rapidly--as competitive pressures continue to mount, the rate of technology change continues to accelerate, and the opportunities presented by innovation in the use of technology attract more and more well-deserved attention.

Lease finance is a powerful tool, and decisions as to its application and use in any given situation must be worked through in a careful, well-informed, and unbiased manner. It is a matter of fiscal and corporate responsibility to do so.