Prepared by AmCham member

CSI LEASING the power of experience

If it appreciates, buy it; If it depreciates, finance it.

In the past, companies used to buy their assets (cars, buildings, IT equipment) almost exclusively using their own resources. Recently, however, managers in many companies have realized that the main benefit is in the use of these assets and not their ownership. As a result, many companies have started to use financial leasing and operating leasing in addition to cash purchase.

In contrast to Western Europe and the United States, Slovak companies usually acquire IT mainly with their own cash flow. One of the reasons is that only a small number of companies do a buy vs. lease analysis and compare all the costs of owning and operating IT equipment through cash and leasing. When a company uses their own financial resources to acquire IT equipment, the company usually does not realize that it is not acquiring an asset, but rather a liability. Most companies only contemplate what happens at the beginning of the technology life cycle. However, the company's calculations do not reflect what will happen at the end of the life cycle. A serious flaw in the CFO's model occures when the total cost of ownership (TCO) of the IT equipment is not calculated by the CFO. When preparing a true model, the CFO should include considerations of the following costs of owning IT equipment: What is the cost of controlling and reporting the IT equipment? How do we comply with the disposal of IT equipment at the end of life with appropriate sanitization of sensitive data and recycling in accordance with the effective legislative norms?

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These additional costs (including recycling and sanitization) can range from 15% to 20%, depending on the complexity of the equipment and IT infrastructure. Last but not least, in many cases the models used by CFOs do not envision a situation of outage and consequent costs of reconstruction of IT systems if such a failure is covered by neither a manufacturer's warranty nor a service level agreement (usually a period of three years). In such instances, the costs can grow exponentially.

Acquisition of IT equipment through operating leasing has various advantages and disadvantages: the lessee pays only a monthly or quarterly payment, which includes all costs related to the equipment. Therefore, a company's precious cash can be employed for core business rather than the purchase of unproductive assets. A leasing company includes all the costs associated with the IT life cycle in the rental payment and the lessee will not be surprised by any additional charges. Furthermore, the lessee does not have to deal with the hassles related to recycling obsolete equipment and sanitization of sensitive data. Based on their expectations, the lessee is able to control the TCO associated with using IT equipment up front. The CFO has a complete overview of the IT assets and can precisely determine the cashflow.

Overall, leasing offers a less expensive acquisition method than purchasing. With its use, the lessee's IT department can become an important partner for the company's strategic decisions and not only a "fire-fighter" reacting to problems caused by using obsolete IT equipment. Operational leasing is mainly for companies that see the benefits in using IT and not its ownership. In particular, it is a way of acquiring IT where the initial investment is higher than 30,000 euros on average.

Why do modern companies lease their IT equipment instead of purchasing it? In summary, they are not motivated by ownership, since the equipment represents a liability as opposed to an asset on the company's balance sheet. In addition, they don't have to keep the equipment until its full depreciation, which may cause them to fail to update equipment on time (and thus get stuck in "depreciation jail"). Operating leasing is less expensive than ownership, since a company employs its valuable resources in its core business, which yields a profit, and not in stock, which depreciates over time. Modern companies demand higher flexibility in updating their IT equipment and put more emphasis on true budget forecasts with predictable cash-flows. They know the precise monthly cost of IT equipment. Last but not least, they reduce the risks and hassles of using technology equipment related to data sanitization and proper disposal.

Martin Kardos, Managing Director, Central and Eastern Europe, CSI Leasing, Inc.