HIRE YOUR HARDWARE

WHAT'S THE SECRET TO FINANCING IT EFFECTIVELY? BARRY NAYLOR EXPLAINS

The world of finance has changed and it continues to change – the past five years have taught us that. Banks, for years the main source of corporate funding, are being forced to repair their balance sheets, tighten up capital ratios and avoid bad debts. As a result, lending policies are becoming ever more rigid and conservative. Yet funding – and the access to it – is the lifeblood of business, providing working capital and procuring the assets needed to function and grow. The new credit reality has created an environment where businesses are being forced to consider other avenues for finance and they are beginning to examine how they can gain this essential capital in a more effective and cost-efficient way.

Many options are available, where assets are matched with specialised funding sources, including invoice discounting and stocking loans. But what about asset classes that banks are even more reluctant to finance – IT, for example?

What singles your IT out for special consideration?

Two things that need to be taken into account are the importance and reliance nearly every business places on its IT hardware and systems, together with the inherent properties of the equipment itself.

Importance to business

Every user and user's experience can be affected by how choices are made at an executive level. For example, older equipment can lead to many lost hours across a business in terms of downtime, in addition to increased power costs and reduced efficiency of old equipment. By using a shorter refresh cycle, businesses can lower costs while disciplining the finance and IT departments to keep abreast of technology and place the business at the leading edge. These immediate tangible benefits also don't consider the issues of low morale, frustration and poor attitudes that can result from employees who are forced to use outdated equipment, which can impact their own performance and productivity.

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Inherent properties of business IT

Business technology is largely comprised of short-life assets that depreciate very quickly, and cash can be better used within the business rather than being invested in depreciating assets. Users of IT spend a great deal of time, and place increasing reliance, on their equipment, so the whole IT infrastructure must be able to cope with any issues that may be thrown its way. If it is not robust, your business can be placed at risk from the smallest weaknesses in the system – keeping equipment up to date is a very important part of addressing this.

Risks of not changing IT regularly

In addition to the costs of owning older IT equipment, one aspect that is not always considered is that where there are errors, or users become used to unusual occurrences because their IT doesn't always function correctly, there is the risk of intervention from outside parties. Ageing IT makes a business vulnerable and any weaknesses can attract hacking.

Keeping your IT up to date generally means refreshing every two to three years for user equipment, for example, PCs/laptops or tablets, and every three to four years for servers/networking infrastructure. There is considerable empirical evidence that proves that a shorter-term refresh of IT equipment can lead to major benefits for businesses. Meanwhile, maintaining IT beyond normal warranty periods poses the potential risk of high maintenance bills either externally or from internal resources; IT departments can

spend many wasted hours maintaining legacy equipment.

Then, of course, there is the question of disposal and data security at the end of the IT life cycle. How many companies build in the cost of disposal and data sanitisation into the initial budget when purchasing IT? How many businesses also have good asset-tracking tools to maintain accurate records for IT, HR, finance and other departments?

Taking all of these aspects into consideration, how can the method of IT finance make a difference?

Funding alternatives for IT equipment

Paying for IT in a business can be complex, particularly at a time when expenditure on applications, web portals and other proprietary programs can outweigh the procurement costs of the hardware needed to run the programs. Capitalising these projects can have a large balance sheet impact if it takes place alongside the continuous development of hardware.

How you fund the hardware infrastructure is a bit simpler, and the impact can be spread over the useful working life once you know what this is likely to be. With this method, getting caught in a depreciation trap, where the accounting department – not the specialist IT department – dictates when IT assets are replaced, can be avoided.

Generally, IT equipment offers little attraction to a bank, since the bank views it as an 'unsecured' lend against portable and mobile assets. Even when banks do lend, it will generally be via a finance lease or hire purchase agreement where the liability will have to be capitalised on your organisation's balance sheet, potentially increasing liabilities and triggering debt covenants. In addition, a business will still have the issues of ownership, disposal, data deletion and obsolete equipment.

There is an alternative, of course. An off-balance sheet operating lease provided via a specialist IT lessor can provide a cheaper, more efficient method of financing IT, while also giving the additional benefits of asset tracking, equipment disposal and data deletion.

Moreover, using a specialist IT lessor can preserve a business's credit lines with its bank – credit that can be used to invest in the core functions of the business and enhance profitability and shareholder value. For multinational companies, a one-stop solution with a global IT lessor can remove the headache of having to seek out and negotiate finance agreements in several jurisdictions.

Funding IT is more than just a finance model. It brings many benefits to businesses in addition to the basic economic advantages. These include keeping the IT regularly refreshed, maintaining accurate asset-tracking records and having a disposal tool and data sanitisation at the end of life.

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TIPS FOR CHOOSING AN IT LESSOR

When considering the options to finance and manage your IT equipment, you may decide to check out the leasing options of various providers. Here is some useful advice:

- **Ask about how the leasing company deals with returns – ie has it got a track record you can verify with real customers?**
- **What are the conditions it expects on return and how will it deal with any damage? Ask whether it replaces with new or age-appropriate (and therefore cheaper) spares to replace broken or damaged parts.**
- **You will normally be responsible for the cost of equipment returns, but the leasing supplier should be able to provide specialist couriers at discounted prices and packing services to minimise risks of damage in transit.**
- **Check what is included with your leasing agreement – is a good asset management tool available? Is it free or do you have to pay for it? Will it interface with your existing systems? Are all of the terms and conditions clearly laid out and easy to understand?**
- **Will the leasing company data-wipe the equipment at the end of the lease and will it do this in-house or use a third party with whom you have not contracted?**
- **What international coverage does the leasing company have? Can it service your ever-increasing global requirements? The world is getting smaller and smaller.**
- **Finally, make sure the leasing company can offer real investment in the equipment being leased to give you a true operating lease with all the ancillary benefits from a tax viewpoint.**