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Maintaining a Vibrant Presence…
Independents Continue to Evolve in IT Leasing

In spite of the challenges posed by a slow economy, low interest rates and falling equipment prices, IT leasing remains a viable and vibrant industry. Recent market changes have forced IT leasing companies to move away from straight financing toward value-added services that make life easier for IT executives in tackling their daily and long-term issues.

By Ken Steinback

Post-Y2K, the IT leasing industry has faced many challenges. A slow economy, low interest rates and falling equipment prices have created an environment where many corporations — including those that have traditionally leased — have adapted to purchase. Industry consolidation and turnover have forced lessees to consider new partners. With a bevy of new legislation over the past few years, CIOs and CFOs alike have a lot more to worry about than simply a technology refresh strategy and a low lease rate factor.

Despite these challenges, IT leasing remains a viable and vibrant industry. The recent market changes have forced IT leasing companies to evolve away from straight financing toward value-added services that make it easier for IT executives to tackle their daily and long-term problems. For example, five years ago, very few IT lessors offered a tool to help customers track their assets. Today, lessees demand online asset tracking tools as a standard part of a leasing package. In order to remain an attractive option for lessees, IT leasing companies must provide new services and solutions that will help IT executives manage their equipment through every step of the equipment lifecycle.

The Players

The face of the IT leasing industry is an ever-changing quilt. Larger companies continue in their quest to acquire smaller firm's portfolios. Sales reps and executives from one fallen company seem to emerge with a new business card, supporting the notion that individual relationships continue to drive our business.

IT lessors generally fall into one of three categories: captives, banks and independents.

Captive lessors are tasked with helping their parent companies sell more products by offering a financing alternative to outright purchase. Captives are extremely effective at leasing their own products and generally can offer a lower rate on their own product than anyone else. For companies that need to use only one equipment platform, captives can be a viable solution.

Banks are delving into the IT world at an increasing rate using IT financing as an additional opportunity to increase their footprint within their customer base. These banks look to capitalize on existing relationships by cross-selling across their divisions. They also provide a competitive financing package for their customers, but traditionally have not been willing to take a true residual risk with equity investments in IT. Part of the reason for this is the banks' inability to remarket IT assets on the back end.

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For the customer who wishes to consolidate more equipment with one lessor, or who would like a more customized lease program, independents are an excellent solution. Independent IT lessors take on the residual risk for a broad range of equipment, usually with no allegiance to a particular manufacturer. This independence enables customers to not only combine many different types of assets into one lease schedule, but also gives the customer flexibility for moving in and out of IT platforms as their needs change.

Because independents do not have the luxury of manufacturing sales, or a built-in cross-selling customer base, they must differentiate themselves with exceptional service and flexibility to keep a competitive edge. Independents have often become industry leaders by developing new offerings that become industry standards, such as the quarterly lease schedule and online tracking tools. And because some independent IT lessors run their own back-end remarketing operations, they are able to offer a wide array of disposal services at a significant cost savings to their customers.

Challenges

The biggest issue all IT lessors face, regardless of size, is growth. As evidenced by last month's Monitor 100, simply maintaining existing portfolios was a challenge for many in both 2003 and 2004. Given the economic climate, many considered flat revenues a success.

The biggest obstacle to growth has been the rapidly declining cost of computer hardware. Every PC coming off lease today needs to be replaced by 1.5 PCs just to retain the same revenue levels. There have also been no major advancements in technology that promise to balance the scales. For sales executives at many companies, this means producing 150% of former levels to earn the same amount of money. Some are fortunate enough to be able to turn to their long-time customers for a bigger piece of the pie, but most face the reality of needing to add even more new customers than before to grow.

Another challenge that is finally turning around stemmed from the huge infrastructure buildup prior to Y2K. While we all reaped the benefits of the pre-Y2K flurry, that same spike in activity has had a negative effect on portfolio growth in the years since. A large majority of corporations have kept their IT budgets down by stretching the useful life of their technology assets to the very limit. For those who can rewrite leases to accommodate this thinking, it has meant short-term profits, but limited portfolio growth. Now, halfway through 2005, the pent-up demand for new technology is finally equating to an increase in technology acquisitions. Researchers predict as much as a 9% spending increase over last year.

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Opportunities

We all compete from a common starting block. On any given transaction, most IT lessors can be competitive with one another on price. After all, interest rates, debt rates and even equipment costs will be very similar. So how do we differentiate ourselves from our competition, let alone the myriad of other financing options available to customers? An even more pertinent question cuts to the very core of the industry's existence: How can we provide value to our customers beyond providing a good lease rate factor?

We believe that the greatest opportunity in the leasing industry is being created by a shift in demand away from price and toward convenience. Make no mistake — price is still important, but every day, the total cost of ownership equation that many companies use to analyze a lease vs. buy decision is being rewritten to include new costs for a slew of real issues, from asset tracking to data sanitization to disposal. The easier we can make it for our customers to deal with these issues, the easier it will be for us to justify leasing as not only a viable option, but also as the preferred solution for acquiring and using IT assets.

IT industry analysts continue to promote leasing as a better solution than purchasing, echoing "the value is in using the equipment, not in owning it." The challenge is to continue to provide more value in leasing by reducing the hassles associated with ownership. We need to continue to offer services and solutions throughout the entire lifecycle — from acquisition through disposal — that make it easier for our customers to focus on their core business.

One such area where the industry can make a significant difference is addressing the increasingly burdensome issue of disposal. As computer disposal becomes more regulated, corporations are scrambling to keep up with federal and state legislation regarding both data security and environmentally friendly disposal. Tackling these issues in-house can be costly and highly inefficient. IT lessors, especially those with the facilities and expertise to handle off-lease equipment, can take this burden off customers' hands by offering data sanitization and recycling services.

HP's recent survey on equipment disposal found that IT executives who understand the environmental issues created by computer disposal are more likely to lease their computers. The report also stated that most IT executives underestimate the cost of proper disposal. Not only does leasing eliminate the many costs involved with proper disposal, but it also can shift liability for improper recycling to the lessor, as long as the lessor has appropriate facilities for handling the process. It is our job to not only develop solutions for recycling and data sanitization, but also to educate our customers on the potential risks in failing to plan for these issues. The more customers understand, the more likely they are to lease.

Making it easy for companies to acquire and use IT equipment is going to be the key for our industry. The more we can differentiate leasing from owning, the better off we will all be.

Outlook

Despite some challenges, it is an exciting time to be in the IT leasing industry. Accounting scandals and bad press for the entire industry have subsided. The turmoil from acquisitions and outright exits from the business are beginning to settle down. International markets present new opportunities. Interest rates are beginning to rise, and for the first time in a long while, IT spending forecasts are up.

Growth is still the key to survival. We will grow as we continue to listen to our customers, and find new ways to help them reduce the costs, risks and hassles of owning technology equipment.

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