

How to Choose a Technology Leasing Company

Bob Ragland, Executive Vice President, AEL Financial, LLC



AEL Financial

aelfinancial.com

The question of choosing a technology leasing company may not at first appear important. After all, leasing isn't for everybody, right? If you have the cash, why not use it? And even if you do lease your capital equipment, why not stick with one general purpose leasing company?

The answer is this: *No lessor is best suited for all types of leases.* Each has a preferred credit profile and equipment specialty. Some leasing companies are bank affiliated, some are manufacturer captives, and others are independent lessors. So to pick a leasing company, you must first clarify your reasons for leasing.

Why Do Companies Lease?

Companies lease equipment for a variety of reasons:

- They lease to raise capital – or to preserve cash flow
- They lease for tax benefits
- They lease to get assets off balance sheet
- And they lease to manage technology risk

Of these objectives, risk management – the assessment of technology – is one of the most subjective. But it is possible to get a handle on the task by breaking it into discrete, manageable components.

Corporate Technology Strategy

A starting point should be to establish a formal corporate technology strategy, which should include answers to the following questions:

- How is technology used in your company?
- What are the elements of technology? You should consider hardware, software, network, and support infrastructure.
- Is having up-to-date technology an important success factor for your company? Even if a computer or other asset is not actually obsolete it may still lack features or performance necessary to remain competitive. Every company that considers “excellent customer service” to be a central objective needs to understand that technology is critical to achieving that objective. How fast can an order be placed, equipment shipped, or a customer service inquiry be handled? All of these require sophisticated systems support.

- Even if rock bottom low cost is the overriding factor, recognize that hardware cost is a tiny fraction of that equation. And cheap or fully amortized hardware may carry a high price tag in terms of downtime, lost data, and tech support needed to keep an old system running.
- How frequently should technology be updated – or refreshed?
- Is tech refresh a continuous systematic process or a “once every five years” type of event?
- Do you have a comprehensive database of owned and leased technology assets? And specific software and features on each item?
- Do you have an updated assessment of the total cost of equipment ownership of each item? This should include the actual hardware cost, of course, but it should also include the cost of software, training, support, maintenance, removal, (including data wiping), and environmentally safe disposal.
- Do you have the flexibility to upgrade assets if your needs change?

Once you have established your objectives and set your priorities it’s time to consider whether you should “buy” or “lease”.

The Buy-Lease Decision

The following is a summary version of buy-lease analysis. For more detail, see our White Paper on the subject.

On the “buy” side of the analysis, add the cost of the hardware, software, support, insurance, taxes, maintenance, data destruction, and disposal.

On the “lease” side of the analysis, discount the lease payments at your weighted average cost of capital (not simply your debt rate), plus any taxes, insurance, or other costs not included in the lease payments.

In general, technology leasing benefits include the following:

1. Cost - the present value of the lease payments will be less than the cost of the equipment,
2. Flexibility - you will be able to upgrade and change equipment as your needs change, and
3. Convenience - at the end of the lease, you will be able to simply return the equipment.

Types of Leasing Companies

There are different types of leasing companies, each with strengths and weaknesses.

Bank leasing companies are common, but they are – basically – banks. They provide the capital for the majority of leasing transactions. But since they are banks, they have the strengths and weaknesses of banks. They may have attractive rates for full-payout (loan-like) transactions. And they may be a good place to finance equipment you intend to own at the end of the lease. However, they probably don’t specialize in technology and may not offer attractive terms for technology assets. Since banks don’t want the equipment back, they may not offer solutions for equipment removal, data destruction, and disposal. For this reason, they may be particularly

inflexible about taking back equipment in the middle of a lease term in exchange for an upgrade. Think of your bank as a lender. Not as an equipment specialist.

Manufacturer captive leasing companies may be a good choice if you are comfortable being locked into that manufacturer's footprint. Generally speaking, captives exist to help the manufacturer "sell" its product and control the footprint. They will be happy to help you upgrade – as long as they supply the upgrade. A lesser known fact about manufacturer captives is they usually set up their leasing offerings through private label vendor finance programs – with banks. This is not necessarily a bad thing. After all, the rates may be attractive. The manufacturer may even offer a "blind discount" to the bank program partner. Always ask to see the equipment invoice so you can make an informed buy-lease decision. But keep in mind both the manufacturer and bank partner will be focused on full-payout transactions. The manufacturer wants the revenue recognition and the bank partner wants to avoid equipment risk. So your flexibility – by design – will be limited.

Independent Technology Lessors specialize in technology. Because they invest in technology, they devote considerable resources and expertise to the evaluation of various technology platforms, trends, and risk. Central to their theme is how they constantly compare offerings from different manufacturers. They can provide advice and alternatives. And when the market or technology changes they should provide flexible upgrade and exchange policies. One consideration when choosing an independent technology lessor is their size. They may be smaller than their bank or captive counterparts. So it is important to get to know management and understand their business philosophy and the principles that shape the company. In many cases you will have (and, in any event, you should insist on) better access to the management of an independent lessor than you would have to the top management of a bank.

Questions you should ask your prospective Lessor:

1. How many customers does your company serve? How many did you serve five years ago? *You want a lessor with scale and you want a company that is growing – not shrinking.*
2. Is your organization independent of any equipment manufacturer? *You want someone who is able provide unbiased advice on equipment selection.*
3. Are there any limitations as to what equipment you can lease? *You need to know, in advance, if there will be any problems with potential equipment schedules.*
4. Can you offer flexible lease terms? *Some companies will only offer monthly payments and 36-month terms with a one-size-fits-all mindset.*
5. What is the minimum dollar amount that can be applied to a lease schedule? *If this number is too large, you may not be able to commence a schedule when it is convenient for you.*
6. Do you have a "one-size-fits-all" leasing rate or do you have different rates for different items you lease? *Some companies will blend the rates of various classes of leased assets and then restrict end of term options to "all or none".*
7. Do you allow the lessee to upgrade technology anytime during the lease on a less-than-all basis? *It is important to ask for this flexibility when negotiating lease terms.*
8. Will you assign a dedicated administrator to our account? *It is important to create continuity with account support along with backup capabilities.*

9. How can the lessee track assets on lease? *It is important that you can identify and track all assets covered under your leasing program.*
10. What are your equipment return policies? Do you have multiple locations? Is returned equipment stored in a secure location? What specific method of data sanitization is being used? Does pickup and disposal of all equipment meet EPA and HIPPA requirements? *Clearly, a comprehensive return policy is critical in selecting a lessor.*

Bob Ragland is an Executive Vice President with AEL Financial, responsible for capital raising, new program design and development, and strategic planning. He has over thirty years experience in finance, covering a wide variety of financing structures.

Phone: 847-465-7258. Email: BRagland@AELFinancial.com



AEL Financial provides equipment leasing and finance solutions for lessees, lessors, vendors and financial institutions. We distinguish ourselves from conventional lenders and lessors by providing capabilities and services that those companies usually do not offer. Rather than competing with these organizations, we partner with them to provide the best possible solution to each of our customers.

600 N. Buffalo Grove Rd., Buffalo Grove, IL 60089 | (847) 465-2009 | aelfinancial.com