

## Leasing vs. Purchasing

### Help your customers see the value of leasing their IT acquisitions

The Equipment Leasing Association of America says that 80% of U.S. companies lease all or some of their equipment. And according to research conducted by IBM Global Financing, over 75% of IT decision-makers understand that financing can help reduce the risk of technological obsolescence and provide flexibility in adding or reducing IT capacity.

Why is it, then, that only about half of computer equipment is leased? Probably because many IT managers—the customers you deal with on a daily basis—still don't fully appreciate all the financial benefits of leasing. And financial officers, who have the best understanding of those benefits, typically aren't involved until too late in the sales process.

When you discuss financing options with your customers, it's natural that those who are new to leasing their IT will be reluctant to change their ways. But understanding their concerns and helping them overcome their objections can help them take advantage of all the benefits of leasing. And that can offer you many benefits, as well.

### How leasing will benefit your customers

There are plenty of good reasons why leasing IT makes great business sense for virtually any organization. Simply discussing these with your customers can often overcome their resistance to financing.

- **Low or no up-front cost.** *Your customers can acquire complete solutions with little or no money down.*
- **Complete, multivendor solutions.** *IBM Global Financing can provide a single lease that covers a complete solution with hardware, software and services, from IBM and other vendors.*
- **Single contract and single periodic invoice.** *One-stop financing solutions simplify budgeting.*
- **No technology obsolescence concerns.** *Your customers won't be stuck with obsolete equipment—or costly disposal issues—a few years from now.*

### And how recommending IBM Global Financing to your customers will benefit you

Our leasing solutions don't just help your customers. There are also many ways that including financing in your solutions will help you and your organization.

- **Fees.** *IBM Global Financing will pay you fees when you close deals with our financing.*

- **Portfolio leads.** *IBM Global Financing can inform you when customers become good prospects for either an upgrade or a replacement of their leased equipment. These are great opportunities to sell them additional product; for example, by extending their lease term, they'll be able to afford upgraded capacity with little or no increase in their monthly payments.*
- **Reduced DSO (days sales outstanding).** *Your business may wait less for the money than it would if the customer purchased, since you get the full revenue for the acquisition from IBM Global Financing immediately upon customer acceptance. On average, IBM Global Financing is currently paying Business Partners within about eight business days from receipt of the Certificate of Acceptance. Compare that to how long you have to wait for even your best customers to pay for their purchases.*

Experience shows that including the customer's financial officer in your discussions is a great way to get the IT manager more comfortable with the financial benefits of leasing. But if a customer still isn't sold, this guide will help you take him or her to the next step. In the following pages, we'll look at the most common reasons customers cite for wanting to purchase instead of lease, and explain why many of those reasons just can't compare to the real financial and technological benefits of leasing.

## *First question:*

### *Why do you want to purchase instead of lease?*

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**Customer answer:**

**“Our organization has a ‘purchase only’ policy.”**

**Your response:**

**“Let’s look more closely at your ‘policy’.”**

This is frequently the first reaction you’ll hear from financing-averse customers. In fact, such “purchase only policies” rarely, if ever, exist. It’s much more likely that the customer purchases equipment out of habit, rather than because of an actual, written policy. And once you explain how financing works, and they understand how beneficial leasing their next IT acquisition can be, that “policy” can be quickly forgotten.

**Customer answer:**

**“We’ve got cash, and cash is free.”**

**Your response:**

**“Cash isn’t free and it’s a limited asset.”**

The prospect of avoiding interest and financing charges by paying cash is pretty attractive to some customers. But cash isn’t free. It’s a limited asset, and there may be better ways to use it than tying it up in a depreciating asset like IT. Keeping cash on hand makes it easier to seize a business opportunity before your competitor can arrange financing, or to weather a downturn that cripples your competition. By spending cash on IT, the customer can also lose the tax advantages and residual value benefits that leasing provides. (The residual value is the amount that the lessor can expect to recover by selling the asset after the lease ends.) Ultimately, using cash to invest in their business provides returns that are far higher than the interest rate of a lease.

**Customer answer:**

**“We keep our assets for at least four years, so owning is cheaper than leasing.”**

**Your response:**

**“Owning ties up cash and may still be more expensive.”**

Your customer may do a net present-value comparison between lease and purchase, and conclude that owning is cheaper. But as we showed above, the cost of cash is usually higher than the debt rate. Cash is a scarce asset on the balance sheet, and a reasonable position is to use the Weighted Average Cost of Capital as the discount factor. Even if the customer believes today that the equipment will be kept for a long time, a lot of things can change. A 36-month fair market value (FMV) lease preserves substantial future flexibility at little or no additional cost.

## Second question:

### How will you finance your purchase?

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#### Customer answer:

**“We’ll just finance it with short-term credit.”**

#### Your response:

**“Leasing can be more cost effective than short-term credit.”**

Short-term credit is an important resource to financial managers. But even when rates are comparatively low—and particularly in a challenging economic environment when short-term credit is often hard to come by—it makes more sense to use an external, cost-effective source of financing for IT investments, and to preserve short-term credit for other core investments.

A fixed-rate lease ensures a regular, low monthly payment that’s easy to budget for. It reduces the total cost of ownership, since the lease payment reflects the residual value. It also eliminates end-of-lease disposal issues. And a hardware lease helps your customer meet changing capacity requirements by letting them add or upgrade systems at any time during the lease term. Short-term credit offers none of these advantages.

#### Customer answer:

**“We have a good line of credit at our bank.”**

#### Your response:

**“A line of credit is limited and often has significant additional costs associated with it.”**

A line of credit typically has to be secured by \$5 to \$10 of high-quality assets for every \$1 borrowed, which makes it a limited resource that should be kept in reserve for items that cannot be financed any other way. Lines of credit are also usually short-term funded, so there is a substantial risk of interest rates going up over time. But IBM Global Financing’s leasing rates are fixed over the entire leasing period, which makes forecasting and budgeting much easier. Finally, lines of credit often require the customer to pay additional fees or incur additional costs, such as reporting inventory or AR levels.

#### Customer answer:

**“We’ll just get a term loan.”**

#### Your response:

**“Term loans often have terms and conditions that can add additional costs and complexity.”**

If the customer is considering a term loan, they should carefully consider all of the terms and conditions that may come with it. There are usually fees involved, and the customer may be asked to make a down payment or to keep compensating balances. These are all additional expenses that a lease will not incur.

When compared to obtaining financing through a bank or other financial organization, remember the added value that IBM Global Financing brings as the world’s leading provider of IT financing. We’re experts not only in financing, but in technology as well. Leasing with IBM Global Financing will help your customers keep up with technology by letting them replace or upgrade equipment either mid-term or at end of lease. We can take an aggressive residual-value position on equipment from IBM and many other vendors, and provide the customer with fair market value on mid-term exchanges. And as a total IT financing solution provider, IBM Global Financing can structure a lease that rolls hardware, software and services into a single contract with a single periodic invoice, simplifying budgeting.

### *Third question:*

#### *What will you do with the equipment at the end of its life?*

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**Customer answer:**

**“We’ll just cascade it down to other users. Or sell it. Or something.”**

**Your response:**

**“Equipment disposal typically involves unexpected costs and environmental restrictions.”**

When planning a new IT acquisition, it’s natural that the last thing on a customer’s mind is how they’re going to dispose of the equipment a few years down the road. But it’s a hidden cost that needs to be considered when choosing between purchasing and leasing. Will your customers end up putting retired systems into storage indefinitely? Or trying to sell them for pennies on the dollar (or even less)? Or dealing with the cost and environmental regulations involved with dumping them?

When your customers lease their IT equipment with IBM Global Financing, all those issues are eliminated. At the end of the lease, the customer can simply return the equipment to us, and we’ll take care of all aspects of equipment disposal, relieving them of any additional cost or legal liability. Then they’re free to move on to the latest technologies on the market.

Of course, if the customer decides that they are still happy with the equipment, they have the option of extending the lease on a monthly basis for the same low payment, or negotiating a new contract. The choice is entirely theirs.

### *Last question:*

#### *Can I start a lease application for you?*

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There are a lot of great reasons to lease, and making your customer comfortable with the decision to lease an IT acquisition is a big step toward ensuring total satisfaction today, and in the future.

If you have any further questions about leasing, visit us at:

**[ibm.com/financing/partner](https://ibm.com/financing/partner)**



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