

# Burned By Leasing? Five Tips for Leasing Technology

By John Carcone, Forsythe

To some CIOs and CFOs, leasing is an effective way to avoid “burning” capital on assets that may well become obsolete before they are fully depreciated. Unfortunately, others have had bad experiences with leasing. Some have been burned by disreputable leasing companies that clobbered them with “Gotcha!” clauses, outrageous terms, hidden fees and unfair conditions. These customers are so turned off by leasing, many have sworn to never lease again. This is particularly unfortunate because they lose out a second time--on the flexibility and cost-effectiveness that leasing can offer.

The fact is that leasing should be painless. The right leasing solution can make the experience of equipment acquisition and disposal--as well as the cost--more manageable. For satisfied leasing customers, the following tips will describe what you are already receiving--and should continue to expect. For those who have been burned in the past, perhaps it will put a useful tool for cost-effective IT acquisition back into your hands.

## Not All Companies Are Alike

The first important issue to remember is: Not all leasing companies are alike. Just because you may have found yourself entangled in a damaging contract in the past, does not mean you will have the same experience again. It is possible to select an ethical leasing company, one that is interested in a fair, balanced and mutually beneficial partnership. As with any industry, there are the “good eggs” and the “rotten eggs.” However, the more you educate yourself about ideal leasing business practices, the better off you will be as you enter into a leasing arrangement. One clue to a “good egg”: they won’t complain about your pulling back the curtain; they will take the time to explain to you what the numbers, terms and conditions mean.

Here is some background to get you started. The leasing industry was originally built to provide beneficial funding solutions that meet customers’ budgets, technology requirements and improve their financial metrics. These are noble objectives--and, when they are adhered to--they can certainly create a win-win solution for lessee and lessor alike.

However, along the way, a few things changed, which caused the underlying fundamentals of equipment leasing to materialize into less beneficial, often less ethical, practices.

## Key Industry Shifts:

1. IT solutions retain materially less residual/resale value over a four- to five-year period than they were expected to retain as little as five to ten years ago.
2. More frequently than ever, manufacturers are strategically offering blind internal discounts to their leasing subsidiaries to increase the amount of their equipment in a customer’s infrastructure by restricting competition.
3. Numerous lessors in all categories (captives, independents, banks, etc.) continue to unduly restrict a lessee’s operating flexibility during and at the end of term with obliquely worded terms and conditions.
4. Customers therefore perceive increasing risk and limited value in having a long-term IT funding partnership.

Little can be done by the leasing industry to change the first reality: Equipment is becoming obsolete faster because technology is evolving more quickly than ever. Obviously, this trend toward technology obsolescence does not result from negligent behavior on the part of the leasing industry, but it is an important point to mention in order to gain a greater understanding of the full scope of leasing.

Manufacturer jockeying to be majority supplier is also inevitable. They want to “own” technology real estate in the same way that products seek to “own” floor space in a retail environment—it’s good for their business. However, it will help you as a customer to be aware of this trend when you are involved in making any leasing decisions.

Points #3 and #4 are absolutely issues that leasing companies need to address. Many are doing so already by providing equitable and credible leasing practices. Unfortunately, others are propagating unfair practices--leaving a wake of disillusioned,

disheartened and disserved customers. These “rotten eggs” are ruining it for the leasing industry as a whole. They do not realize that their misguided behavior will only generate more purchase converts, harm customers’ ability to cost-effectively refresh their IT solutions in a rapidly changing environment, and cause even more alarm and distrust. These disreputable leasing companies must put aside the allure of short-term financial gains and the deceptive use of “gotcha” terms and conditions in master leases and schedules. They must act less like vendors, and more like the long-term, strategic partners they should, and can, be.

### Leasing Can--and Should Be--Both Painless and Beneficial

1. **It’s not only about the rate.** Finding the right technology solution for your company requires more than simply going for the lowest price. It is important to remember that the lowest rate almost always goes hand-in-hand with onerous terms and conditions, such as limited mid-term correction and end-of-term flexibility. Contracts from a reputable leasing company will be clearly written in plain language and void of “gotcha” terms and hidden handcuffs. A reputable leasing company will want to work with you to manage your end-of-lease and strategic refresh plans. When operating in this way, leasing can be a valuable, flexible, and cost-effective asset and budget management tool.
2. **Knowledge is key.** Before you sign on the dotted line, make sure you completely understand the operating components of your lease. Legal reviewers handle legal issues, but can you really expect your corporate lawyer(s) to assess how the equipment lease deals with mid-term upgrades or “all or none” extension/ return provisions? Reputable leasing companies will ensure that their clients fully understand what a fair and balanced lease looks like. A responsible lessor will work with your legal counsel to provide them with all the information needed to make an informed decision.
3. **Expect your lessor to assist your efforts in managing your lease portfolio.** A reputable lessor will provide tools to augment your internal administrative processes so that end-of-lease deadlines

are met and unintended, contractually mandated renewals become a historical industry footnote.

4. **Lease for the right reasons.** Start with a well-thought-out refresh plan and then match the timeframe of your funding solution to this plan. In some cases, leasing simply isn’t the best operational or financial funding solution. Make sure you prioritize your refresh strategy and ensure that your funding solution is in complete alignment.
5. **Only work with a company whose business model focuses on a timely and cost-effective refresh of your technology.** IT solutions are perishable. A reliable “partner” will help you focus on what will be important tomorrow as well as your needs today. This “full-scope” approach will help you anticipate and provide for your needs, now and in the future.

The best lessors incorporate these principals into their business practices. They act ethically and transparently and strive for balance and mutual benefits. They want you to be satisfied with your lease terms and their service--not just today, but over the term of your lease, and at the end of your lease--so their investment in your business pays off on both sides for the long term. Lessees who have had good experiences know that, when done right, leasing is sometimes a viable, even preferable, solution for meeting your IT equipment needs.

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